Digitized by the Internet Archive
in 2026

https://archive.org/details/theorypracticeof0001henr_w8o0

THEORY AND PRACTICE

OF

BANKING

Testimony is like the shot of a long bow, which owes its efficacy to the force of the shooter; argument is like the shot of the cross bow, equally forcible whether discharged by a giant or a dwarf.—*BOYLE*

THE

THEORY AND PRACTICE

OF

BANKING

BY

HENRY DUNNING MACLEOD, M.A.

OF TRINITY COLLEGE, CAMBRIDGE, AND THE INNER TEMPLE, BARRISTER-AT-LAW;

SELECTED BY THE ROYAL COMMISSIONERS FOR THE DIGEST OF THE LAW TO PREPARE THE DIGEST OF THE LAW OF BILLS OF EXCHANGE, BANK NOTES, ETC.

HONORARY MEMBER OF THE JURIDICAL SOCIETY OF PALERMO

LECTURER ON POLITICAL ECONOMY IN THE UNIVERSITY OF CAMBRIDGE

FOURTH EDITION

VOLUME I

LONDON

LONGMANS, GREEN, READER AND DYER

1883

THE AUTHOR RESERVES THE RIGHT OF TRANSLATION

LONDON:

PRINTED BY A. P. BLUNDELL & CO.,

26, GARLICK HILL, CANNON STREET, E.C.

To the Right Honourable

SIR CHARLES BOWEN, D.C.L.,

One of the Lords Justices of the Court of Appeal in the Supreme Court of Judicature

Dear Lord Justice Bowen,

It is with the greatest pleasure that I inscribe this Work with your Name, in acknowledgement of the many kindnesses I have received from you

Most earnestly hoping that you may have a long career on the Bench which you so adorn,

Believe me to be,

Yours most faithfully and truly,

H. D. MACLEOD

PREFACE

TO THE

FOURTH EDITION

This Work has now assumed its final form, and no further alterations will be made in it, except any that may be rendered necessary by new legal decisions

When the First Edition was written in 1855-56, I found the Fundamental Conceptions and Principles of the current books on Political Economy so unsatisfactory that I was obliged to examine them at considerable length. Since then I have published the *Dictionary of Political Economy*, the *Principles of Economical Philosophy*, and the *Elements of Economics*, in which the foundations of the Science are thoroughly investigated and established, and therefore it is not necessary to do so in a work devoted to Banking

In this Edition those Fundamental Concepts and Laws only are investigated which are exclusively necessary for the Theory of **Credit**

At a very early age I became thoroughly conversant with the practical management of very considerable landed property. In 1847 the Administration of the Poor Law in Scotland had fallen into great disorder. The district of country in which I then resided appointed a Committee to consider what was to be done. This Committee elected me as their Chairman, and entrusted me with the duty of devising a new system of Poor Relief. The scheme which I prepared was adopted by the District, and carried out, and it proved so successful that the Poor Law Board of

Scotland requested me to draw up a Report of it to be laid before Parliament, with the view of making it better known throughout the country. My paper was included in their Seventh Annual Report to Parliament, in 1852; and it had great effect in encouraging the rest of the country to adopt the same system: and at this time it has been universally followed. At this time I had not read a line of any work on Political Economy; but the circumstances I have mentioned enabled me to acquire a store of facts from original knowledge and observation, which were of the greatest use to me when I was obliged to take up the subject

In 1853 I was invited to join the Direction of a Bank which had been formed under Sir Robert Peel's Joint Stock Banking Act of 1845. The Board of Trade had made certain promises to the Bank, which were essential to its existence, and which had been embodied in the Charter of the Bank with the express consent of the Board of Trade, and of their legal adviser, Mr. Bellender Ker

When the proper time came when the Bank, in terms of their Charter, applied to the Board of Trade to carry out these engagements, to the surprise of the Directors the Board of Trade refused to fulfil them, on the alleged ground that they were illegal. When I joined the Direction, I found that the Directors had been endeavouring for three years to induce the Board of Trade to fulfil their engagements; but the Board had steadfastly refused to do so, as Mr. Ker held them to be illegal

The case being submitted to me, I gave it as my opinion that the Board of Trade were entirely wrong in their contention; that the clauses were perfectly legal; and that I could draw such a case as would satisfy the Board on the point. The Board directed the case to be drawn and laid before the Law Officers of the Crown, then Sir A. Cockburn and Sir R. Bethel, whose decision was to be final. Upon reading the case I had prepared, the Attorney and Solicitor-General decided, without the slightest hesitation, that my contention was right; and Mr. Ker also joined in the decision

In the preparation of this case I was led to examine thoroughly the works of Adam Smith and John Stuart Mill, and I soon perceived that whatever merits in other respects they may possess, they were extremely defective in all matters relating to Credit, Banking, and the Foreign Exchanges

The Bullion Committee of 1810, which was appointed in consequence of the serious depreciation of the Paper Currency caused by the extravagant issues of Bank Notes by the Bank of England, in its Report, one of the most celebrated ever made to Parliament, and which is one of the great landmarks in Political Economy, laid down the principles that the Bank must regulate the issues of its Notes by the quantity of Bullion it held, and by the state of the Foreign Exchanges ; but unfortunately it entirely omitted to state the practical measures by which its principles should be carried into effect

This Report was summarily rejected by Parliament in 1811 : but it gradually won the assent of all competent men, and in 1819 the Committees of both Houses of Parliament adopted its doctrines. The Bank of England alone issued a protest against them ; but the Bank itself was converted in 1827, and made some attempts to adopt these principles, but they all failed

The last attempt was that of the Bank Charter Act of 1844. This Act is expressly founded on the dogma that Bank Notes payable to bearer on demand are alone Currency, to the exclusion of all other forms of Credit : and it is intended to carry out a particular Theory of Currency : and the method it adopted was that of imposing a strict numerical limit on the Notes issued by the Bank

Every mercantile lawyer would at once say that the definition of Currency adopted by the framers of the Act is entirely erroneous ; that the Act entirely fails to carry out the Theory of Currency it professes to do : that if that Theory was enforced the Bank could make no profits : and that no Bank constructed on that principle ever did, or could by any possibility, make any profits. Furthermore all the great authorities of former times,

including the Bullion Report, and Peel himself on several occasions, solemnly protested against imposing a strict numerical limit on the Notes of the Bank. Mr. Thornton, the eminent banker, who was one of the authors of the Bullion Report, said, in 1804, that if this rule was strictly carried out in a period of commercial panic it would lead to **universal failure**

This opinion was fully verified in the monetary crisis of 1847 : the only one which took place after the passing of the Act and before the publication of this work : and also in the subsequent crises of 1857 and 1866 : when, if the Act had not been suspended, not only the Bank of England itself, but every Bank in England would have stopped payment, and all commerce been thrown into the most terrible convulsions

In the autumn of 1855 a very sudden and severe monetary drain took place. During this drain some very startling and extraordinary circumstances took place, which I have never seen mentioned in any book. Reflecting on these, I came to the conclusion that the only true method of controlling Credit and the Paper Currency is by sedulously adjusting **the Rate of Discount by the Bullion in the Bank and by the state of the Foreign Exchanges.** And I explained the reasoning on which this principle is founded, in the first edition of this work

This doctrine, but very imperfectly understood and extremely unpopular at the time it was first published in 1856, is now universally acknowledged to be the true one, and is adopted by all the Banks in the world. It was acknowledged to be perfectly efficient by Mr. Norman, before the Committee of the House of Commons, on the crisis of 1857 ; it is the principle upon which the Bank of England is now managed ; the Usury Laws in France were modified for the express purpose of enabling the Bank of France to adopt it : and through understanding and adopting this principle, the Notes of the Bank of France, which was obliged to suspend payments in cash during the misfortunes of the country, were enabled to circulate at par. In fact, this principle is now as well established among all competent persons as the Newtonian Law of Gravity

In that edition also I investigated the Theory of **Accommodation Paper**, which has produced so many calamities, but which has been so much misunderstood. I explained wherein the true danger of Accommodation Paper consists. In 1861 the failure of *Lawrence, Mortimer, and Schrader*, popularly known as the great leather fraud case, took place. In his very long and elaborate judgment in the case, Mr. Commissioner Holroyd quoted the explanation given in this Work at great length, thereby giving the sanction of his high authority to its correctness

After the publication of the first edition of this Work, I was led to examine the works of the First School of Economists, the Physiocrates of France, and I found that they originated the expression, "Production, Distribution, and Consumption" of Wealth; that they especially restricted the word Wealth to the *material* products of the earth, which are brought into Commerce and *Exchanged*; and that they expressly excluded Labour and Rights from the term Wealth; and that the expressions "Production, Distribution, and Consumption" of Wealth and Commerce or Exchanges were used by them as equivalent and identical: but restricted to the material products of the earth, to the exclusion of Labour and Rights

In the first chapter of this Work I have shown that the ancients unanimously held that **Exchangeability**, or the capability of being bought and sold, is the sole essence and principle of Wealth; and that everything is technically Wealth which can be bought and sold, whatever its form may be. The ancients showed that there are *three* distinct orders, or kinds of Quantities which can be bought and sold, namely: 1, Material Things; 2, Labour, or Personal Qualities; 3, Abstract Rights

Smith begins his work by speaking of real Wealth as being the produce of "Land and Labour," but further on he expressly classes Personal Qualities under the title of Fixed Capital; and Bank Notes, Bills of Exchange, &c., which are mere Rights, or Credit, under Circulating Capital. Thus he distinctly recognises the three orders of Exchangeable Quantities as Wealth. More-

over, he was well aware of the true and original meaning of the expression, " Production and Distribution," because he expressly says that the purport of his first two books is to investigate the Theory of Prices, and they are nothing but an investigation of the Theory of Value, more or less imperfect. McCulloch, in a note to his edition of the work, says that Political Economy might be defined as the Science of Values. Condillac published his work, *le Commerce et le Gouvernement* in 1776, the same year as Smith published his. He expressly defines Economics as the Science of Commerce, and the first book of his work, like that of Smith, is a Treatise on Commerce. But, unfortunately, he never got beyond the Commerce of Material Products

Thus it will be seen that, as devised by its originators, the expression " Production, Distribution, and Consumption " is one, entire, and indivisible : and it must not be separated into its component terms

J. B. Say, who first defined Political Economy to be the Science of the Production, Distribution, and Consumption of Wealth, unfortunately totally overlooked this fact, and has divided his work into separate parts relating to these terms. He has been followed in this by his disciple, John Stuart Mill, who, however, varies from his master in adopting the term Production, Distribution, and Exchange of Wealth

Each of these works contains many excellent parts and a considerable amount of truth ; but, unfortunately, they have been utterly destructive of the scientific character of the subject. Each of these writers, like Smith, recognises Personal Qualities and Rights as Wealth. And how can we speak of the " Production, Distribution and Consumption " of Labour and Rights ? But it is quite usual to speak of the Supply and the Demand for Labour and Bills, which are mere Rights

So long as the term Wealth was restricted to the *material* products of the earth only, the two expressions, " Production, Distribution, and Consumption," and Commerce or Exchanges were equally good and applicable, and it was perfectly indifferent

which was used ; but the second school of Economists, as those who adopt the first expression or some variation of it are now usually termed, while fully recognising Labour and Rights as Wealth, have continued to use that expression as the description of the Science, when it was expressly designed by its originators to exclude Labour and Rights from the term Wealth

Seeing, then, that Labour and Rights are now recognised as Wealth by all Economists, the most advanced Economists in Europe and America have now seen that it is absolutely indispensable to resort to and adopt the term Commerce or Exchanges, as the only true conception by which the subject can be made a regular Science. Whately was the first person in this country who clearly explained this, when Professor at Oxford ; and Bagehot has repeatedly said that Political Economy is the Theory of Business. Such was the conception I adopted on my first acquaintance with the subject

In 1858 I published the *Elements of Political Economy*, in which, for the first time, it was treated as the Science of Exchanges, or of Commerce, in accordance with the conception of its founders, and of Whately. Upon sending this work to M. Michel Chevalier, who was at that time the most distinguished Professor of Political Economy in Europe, he at once declared his entire approval of it ; and ever after he continued my most steadfast adherent, and used all his influence to popularise my doctrines in France

In 1862 he presented an elaborate Report on my then published works to the Academy of the Moral and Political Sciences of the Institute of France, in which he declared his unreserved adhesion to their principles

In 1874 he proposed me to fill a vacancy among the Foreign Correspondents of the Academy of Moral and Political Sciences

In 1875, when I had published a much enlarged and improved edition of the *Elements* under the title of the *Principles of Economical Philosophy*, he wrote to me—"It is

your book which serves me as the guide for all the Philosophy of my teaching at the Collége de France"

Being of course acquainted with the Juridical Principles of Credit, I acquired a knowledge of their application in Commerce and Banking; from my own observation I then saw how utterly vague, contradictory, and inadequate the notions on the subject were in the works of literary Economists. Not an Economist that I have seen had the slightest idea of the fundamental distinction between a Bill of Exchange and a Bill of Lading, or of the distinction between the nature of the Funds and a Mortgage Deed, to which Mill and many others compare them. Moreover, Algebraists have for the last 150 years frequently given Debts as an example of **Negative** Quantities: but either they have given no explanation of the meaning of the term Negative as applied to Debts: or the few that have done so have given one which every jurist or man of business would tell them is quite erroneous

In the article Credit in my Dictionary of Political Economy, I explained the Juridical Theory of Credit, and showed the real meaning of the term Negative as applied to *Debts:* and showed the application of the principles of Law and Algebra to the great system of Credit and Banking; and also showed the strange self-contradictions of Say and Mill on the subject of Credit

In 1863, M. Rouher, who was then Minister of Commerce and Agriculture, who was one of the most distinguished Economists in France, and also a distinguished Advocate, and therefore fully capable of appreciating the truth of my doctrines, instructed M. Henri Richelot, one of the heads of Departments in his Ministry, to draw up an account of my system of Political Economy, which he ordered to be distributed to all the Chambers of Commerce in the Empire

In 1867 the Government of the day appointed a Commission to take measures to prepare a Digest of the Law for the guidance of the Courts of Law in the contemplated fusion of Law and Equity

The Commissioners began by proposing to prepare Digests of three branches of the Law, as Specimens of the Digest of the whole Law. They invited Members of the Bar to offer their services to prepare these Digests, and to send in specimens of the manner in which they proposed to frame them. One of the branches selected was the Law of Bills of Exchange, Bank Notes, &c.

In preparing my Paper for this competition, it struck me that the doctrines then current in the profession as to the Transfer of *Choses-in-action* were contradictory ; and as the Digest was to be an authoritative declaration of the Law, it became necessary to trace these doctrines to their earliest sources

At that time it was carefully inculcated on all aspirants to the bar that *Choses-in-action* are absolutely incapable of being assigned at Law : that Bills of Exchange are the sole exception to this rule, being transferable by the custom of merchants : that Promissory Notes are not legal at Law : and that they were first legalised by the Act of 1705 : that Instruments under seal are not Negotiable at Law. In a very well known case in the House of Lords, Lord Cranworth, then Chancellor, laid down the doctrine that it was not tolerated by the Law, either of Scotland or England, that any one should issue floating Rights of action against himself. This doctrine, of course, declares that the whole business of Banking, which consists exclusively in issuing floating Rights of action, is illegal

Such were the doctrines which, trusting to the uniform dogmas of the Judges and text writers, I stated in the first two editions of this work. But, to my surprise, I found a series of decisions of the Courts of Common Law, extending through 550 years, in which it had been uniformly held that all Obligations made transferable and assignable by the Obligor himself, were assignable, and that the Transferee, or Assignee might sue the Obligor in his own name : and that all these Obligations were Deeds or Instruments under seal. I further found that up to the end of the sixteenth century, all Bills of Exchange were sealed as Deeds : and that it was during the seventeenth century that the practice of signing Bills of Exchange gradually superseded that of sealing them : but there is a case of a sealed Bill of Exchange

so late as 1680, and the Court perfectly allowed it to be a legal instrument

Moreover, I found that so far from Promissory Notes being a new instrument, only introduced by the bankers at the end of the seventeenth century, sealed Notes payable to assigns or to bearer were in common use in the City of London in the fifteenth century

The doctrine that *Choses-in-action* are not transferable at Common Law had at various times been urged at the Bar; but it was invariably over-ruled by the Court. As a matter of fact, this doctrine had been finally set at rest in 1628, and it was never heard of again, till it was revived by Lord Kenyon in *Master* v. *Miller* in 1791, when it was expressly denied by Buller, J. This was the first time in legal history in which it was emitted from the Bench. But Buller died, and henceforth Lord Kenyon ruled supreme. The first time in which the whole Court held this doctrine was in the case of *Johnson* v. *Collings* in 1800, and it is from this date only that it became a firmly accredited dogma in the profession

Furthermore, during the preparation of this Paper, my attention having been directed to the Pandects of Justinian, of which at that time, as Lord Campbell says, an ordinary lawyer knew as much as of Cherokee, I was surprised to find that the complete Juridical Theory of Credit had been developed by the Roman Lawyers, and was contained in the Pandects; absolutely identical with the Theory of Credit in my Dictionary of Political Economy, simply from my own knowledge of Mercantile Law, and my observation of the actual mechanism of the system of Credit and Banking. There is not a single principle in my article which is not in the Pandects: and there is not a single principle in the Pandects which is not in my article; and the simple reason is this, that the Roman Lawyers and myself had exactly the same state of facts before us

The Royal Commissioners, who included the most eminent Lawyers of the day, Lord Cranworth, Lord Westbury, Lord

Cairns, Lord Hatherley, Lord Selborne, Lord Penzance—to mention only those of judicial rank—upon an examination of my Paper, unanimously selected me to prepare the Digest of the Law of Instruments of Credit

Being therefore invested by the Commissioners with the duty—not of making a mere Digest of Cases and Statutes—but of making an authoritative declaration of "**the Law,**" I formally excluded from the Digest the whole series of cases upon which the modern opinion of the Judges had been founded, as *not* being **Law**; I stated that, in fact, the Act of 1705 was entirely unnecessary to legalise Promissory Notes, as they were legal at Common Law

After some time the Commissioners discontinued the work on the Digest, and recommended that it should be commenced in another form: which, however, has never been done, and consequently my Digest was never published. But on a subsequent occasion Mr. Archibald, then Junior Counsel for the Crown, afterwards Mr. Justice Archibald, when he was acting for the Crown, acknowledged that my Digest was executed with "the highest legal skill the country could produce"

My selection by the Commissioners to prepare the Digest was, from their rank and authority, a practical reversal of the doctrines then held by the Judges regarding the Transfer of *Choses-in-action*. It was, in fact, equivalent to a judgment of the House of Lords in my favour; because, if the Law Lords approved of my written arguments in their capacity of Commissioners, they must have done the same if I had had the opportunity of arguing the question before them in their capacity as Law Lords

Fortified, therefore, by the private approbation of the Commissioners, I introduced the apparently new, but in reality the old and true, doctrines relating to Credit into my *Principles of Economical Philosophy*, published in 1872

In 1873 these very doctrines came before the Court of Queen's

Bench in the case of *Crouch* v. *the Credit Foncier of England.* In the absence of the Lord Chief Justice, Mr. Justice (now Lord) Blackburn, delivered the judgment of the Court, re-stating in the strongest and most decided terms, that *Choses-in-action* are not transferable at Common Law, and that Instruments under seal cannot be made Negotiable. Thus, as the selected exponent of the Law, I was in direct conflict with the judgment of the Queen's Bench

In 1875, however, the very same question came before all the Judges in the great case of *Goodwin* v. *Robarts.* In this case the question was whether Scrip, which was a mere promise to deliver Bonds, possessed the attribute of Negotiability, or Currency, like Bank Notes, Bills of Exchange, and other Securities for Money. The Court of Exchequer held that it did. The case was then taken by appeal to the Court of Exchequer Chamber. In the course of the argument before the Court, the Lord Chief Justice expressed the strongest condemnation of Lord Holt's cases, and said that they were a blot on our judicial history. In delivering the unanimous judgment of the Court he set them entirely aside, and held that the Act of 1705, which had always been supposed in the profession to have legalised them for the first time, was in reality only declaratory of the Common Law. The judgment also reversed the doctrines of the Queen's Bench in *Crouch* v. *The Credit Foncier of England*, and affirmed the doctrines I had laid down in my Digest on these points, as the true statement of the Law

In delivering the judgment, the Lord Chief Justice did me the very high honour of referring to my Competition Paper, and said—

"We find it stated, in a Law tract by Mr. Macleod, entitled 'Specimen of a Digest of the Law of Bills of Exchange,' prepared, we believe, as a Report to the Government, but which, from its research and ability, deserves to be produced in a form calculated to ensure a wider circulation," &c.

Thus I had already anticipated, in 1872, the suggestion of the Lord Chief Justice in 1875; and in this work I have embodied further portions of my Digest

The case of *Goodwin* v. *Robarts* is, beyond all comparison, the

most important mercantile case in modern times. It has completely swept away the unfortunate dogma that *Choses-in-action* are not assignable at Law : and it has established the whole business of Bills of Exchange and Banking on a strictly legal basis : it has now finally settled that the right of private persons to issue Notes is not a privilege which can only be granted by Act of Parliament, but that it is a Common Law right which can only be taken away by Act of Parliament

Moreover, by the Supreme Court of Judicature Act, which came into operation on the 1st November, 1875, it is enacted that wherever the rules of Equity and Law conflict, those of Equity shall prevail. Consequently, the juridical principles of Credit developed by the Roman Lawyers, which are fully set forth in this Work, and which have always been adopted in Equity, have now become Law

I have, then, shown the exemplification of the Juridical Theory of Credit in the great business of Banking : and explained the mechanism of Mercantile and Agricultural Banks : and that of the Scotch Banks, which combine the two. Readers who reflect on the prodigious development of the Agriculture and Public Works in Scotland, will then understand the tenacity with which the people of Scotland cling to their issues of £1 Notes, which has been the subject of so much ridicule and misunderstanding

It is somewhat remarkable that the method of Discount invariably used in Banking, the most colossal branch of modern commerce, which differs considerably from that given in the ordinary books on Algebra, and used by Insurance and some other Companies, has been entirely overlooked by Algebraists. I have given the complete Theory of Banking Discount

As the action of the Bank of England is now governed by the Foreign Exchanges, it was necessary to give an exposition of their mechanism as an essential branch of Banking. The exposition given here is, I believe, fuller than that given in any other Work

It is seen that the Ancients possessed the true scientific instinct. They fixed upon a Single General Idea, or Quality, as

the sole essence and principle of Wealth—namely, **Exchangeability**—or the capability of being bought and sold. They then searched for and discovered all the different orders of Quantities which can be bought and sold, or exchanged; or *whose value can be measured in Money:* and they expressly classed them under the terms Wealth, Merchandise, and Goods and Chattels. All modern Economists since Smith recognise these three orders of Exchangeable Quantities. Mill begins his work by saying that Everything is Wealth which has a Power of Purchasing: which exactly agrees with Aristotle's definition. And reflection will show that there is nothing which can be bought and sold which is not of one of these *three* forms. And all Commerce, in its widest extent, and in all its forms and varieties, consists in the exchanges of these three orders of Quantities. And as the Science of Wealth is the Science of the facts or phenomena relating to that Quality of things which constitutes them Wealth: and as it is agreed that Exchangeability is the sole Quality which constitutes things Wealth: it necessarily follows that the Science of Wealth can be nothing else than the Science of Exchanges, or of Commerce: or the Science which treats of the Laws which govern the varying relations of these diverse Quantities. And this is the conclusion to which the most advanced Economists throughout the world have now arrived: and it is the only conception of Economics which enables it to be erected into a definite Science

The Science is now what is technically termed *complete:* that is, we know, as a positive fact, that we have discovered all the different kinds of Quantities it deals with. We know, as a positive fact, that there are no other orders of Exchangeable Quantities besides those already mentioned

And there being Three orders of Exchangeable Quantities they can be exchanged in Six different ways—

1. A Material thing can be exchanged for a Material thing
2. A Material thing can be exchanged for Labour
3. A Material thing can be exchanged for a Right
4. One kind of Labour can be exchanged for another kind of Labour
5. Labour can be exchanged for a Right
6. One Right can be exchanged for another Right

These six species of Exchanges constitute Commerce in its widest extent, and in all its forms and varieties : and are the subject matter of the Science of Economics

And of the General Science of Economics, or Commerce, comprising six distinct species of Exchanges, the business of Banking consists of those numbered (3) and (6) : for Banking consists exclusively of the Exchanges of Money for Credit, and of Credit for Credit

Any person whatever, possessed of the slightest feeling for Mathematical and Physical Science, can at once perceive that we have here a great Mathematical and Physical Science: because we have seen that a Physical Science is a body of facts or phenomena all based upon a single central Idea or Quality ; and the object of the Science is to determine the Laws which govern the Numerical Relations of the Quantities it deals with

Now here we have a distinct body of phenomena or facts, all based upon a single central Idea or Quality—**Exchangeability** ; and, therefore, it is fitted to form a great Demonstrative Science of the same rank as Mechanics or Optics, or any other Physical Science. Another great body of particular facts is won from the vague floating mass of human knowledge—won from the void and formless infinite—and circumscribed by a definition, and formed into a great Inductive Science, whose investigations must be governed by the same general principles of Inductive Logic as all other sciences are : and yet it will be found to contribute its own quota to Inductive Logic—bearing a general similarity to its sister sciences, and yet with peculiarities of its own.

We have seen that there are **three** distinct orders of Exchangeable Quantities, and, therefore, there are **six** distinct kinds of Exchanges : and the object of the Science is to discover the Laws of the phenomena of these Exchanges, that is, the changes in the numerical relations of these Exchangeable Quantities. We have thus a new order of Variable Quantities : and by the general principles of Natural Philosophy, the laws which govern the Variable Relations of Economic Quantities must be strictly in conformity with the laws which govern the

relation of Variable Quantities in general. The same general principles of reasoning which govern the varying relations of the stars in their courses must govern the varying relations of Economic Quantities. Hence we have a body of phenomena susceptible of the strictest mathematical treatment, which I shall designate as the great Science of **Analytical Economics**

No one is more sensible than I am of the immortal services rendered by the two preceding schools of Economists—that of Turgot, Quesnay, and their followers—and that of Smith and his followers—and I should never wish, in the slightest degree, to extenuate or diminish the glorious triumphs achieved by them. But in all sciences there is progress: and it is the constant fortune of scientific systems to be succeeded and superseded by those of a superior order. Every science is greater than any of its cultivators. Astronomy is greater than Hipparchus, than Ptolemy, than Copernicus, than Kepler,—greater even than **Newton** himself. So Economics is greater than Turgot, than Quesnay, than Smith, than Mill. To every one who has done good service let us pay rational respect, but not abject idolatry. No one, however eminent, is now permitted to be a despot in science, and chain up the human mind, and arrest the progress of thought. As Ptolemy said—"He who studies Philosophy must be a freeman in mind," and, making the most ample acknowledgments for the services rendered by the preceding schools of Economists, scientific truth compels me to say that their systems are now exhausted, and are inapplicable to great Economic problems of the present day, namely **Credit, Banking,** and the **Foreign Exchanges.** To understand these subjects properly, we must adopt a far wider and more comprehensive system of Economics than has hitherto prevailed: one, which I am happy to say, is now gaining the ascendency throughout the world. As a matter of fact, the most eminent and advanced Economists in Europe and America have declared their adhesion to this enlarged and expanded system of Economics, which I have been advocating for twenty-five years; which has given the solution of those questions of Credit and Banking, which entirely baffled the preceding schools of Economists: and by the acknowledgment of all practical men

of business, has finally set at rest that terrible Currency Question which has agitated and convulsed this country for three quarters of a century

Economic Science is the profoundest and most complicated branch of human knowledge, and requires a greater variety of knowledge than any other

1. It deals with Property of every description and in all its forms: consequently a profound knowledge of the Law of Property, and especially of Mercantile Law, is absolutely indispensable to enable a person to perceive and recognise the existence of the various Quantities with which the Science deals

2. It deals with all the Exchanges of Property, and consequently a thorough and profound knowledge of Commerce in its widest extent, and in all its forms and varieties, is necessary to enable us to understand the great Mechanism of Exchanges

3. A knowledge of Mathematics and of Physical Science, and of the methods and principles by which the various Physical Sciences have been constructed, is necessary to enable a person to express the Laws which govern the varying relations of Economic Quantities in strict harmony and analogy with the Laws of the other Physical Sciences

At the present stage of Economics it is not possible to turn a sentence in it without a knowledge of the profoundest and subtlest principles of Mercantile Law, of the mechanism of Commerce, and of the Laws of Mathematics and Natural Philosophy. Among other things, it may be said that the perplexities and subtleties of the Theory of Credit can only be unraveled by principles of Algebra which have only been clearly understood by Mathematicians themselves within the last fifty years. In fact, Economics could not have been erected into a great Inductive Science until Mathematicians had perfected the General Theory of Variable Quantities, and the Theory of Algebraical Signs

Economics is the noblest and grandest creation of the human intellect. It is the crown and glory of the Baconian Philosophy. No one can thoroughly realise the awful sublimity of the genius of Bacon until he studies Economics; because it is the literal

realisation of his matchless discovery that the same principles of Mathematical and Physical Science which govern the phenomena of nature equally govern the practical business of life

"Time's noblest offspring is its last"

Economics is now clearly seen to be a Physical Science : but it is also a Moral Science : because it is based upon the *mores*, the wants, desires, and demands of men. We find that the same general Laws of Exchange hold good among all nations, among the rudest and the most civilised in all ages and countries. The principles of Commerce are absolutely uniform throughout the world. The same causes are invariably followed by the same effects: and that is the reason why Economics may be raised to the rank of an exact science : a permanent and universal science of the same nature as the Physical ones : because it is based upon principles of human nature which are as permanent and universal as those of physical substances upon which the Physical Sciences are based. And therefore it is a Physical Moral Science, and the only Moral Science which is capable of being raised to the rank of an exact science

Gentle reader, if you wish to know what Economics is—

"Vien dietro a me, e lascia dir le genti ;
Sta come torre fermo, che non crolla
Giammai la cima per soffiar de' venti"

"Follow thou me, heed not what others say,
Be like a tower which never stoops its head
Bellow the tempests fiercely as they may"

CONTENTS

OF

THE FIRST VOLUME

CHAPTER I

DEFINITION OF TERMS

		PAGE
§ 1.	**Banking** a department of **Economics** or the Science of **Exchanges**	1
2.	Definition of **Wealth** or of an **Economic Quantity**	2
	Aristotle's Definition of Wealth	2
	Wealth is **Everything** which is **Exchangeable**	2
3.	**Wealth** or **Economic Quantities** of Three Species—Material Wealth	3
4.	Ancient Dialogue to show that **Personal Qualities** are **Wealth**	3
5.	Smith classes Personal Qualities as Wealth	5
	J. B. Say classes Personal Qualities as Wealth	6
	Senior classes Personal Qualities as Wealth	6
	Mill classes Personal Qualities as Wealth	7
6.	**Rights** are **Saleable Commodities**	9
7.	General Rule of Roman Law that **Rights** are **Wealth**	12
8.	General Rule of Greek Law that **Rights** are **Wealth**	13
9.	Rule of English Law that **Rights** are **Goods and Chattels**	14
10.	Smith classes Rights as Wealth	16
	J. B. Say classes Rights as Wealth	16
	Mill classes Rights as Wealth	17
11.	There is no such Thing as Absolute Wealth	18
12.	**Commerce** or **Economics** consists of **Six** distinct kinds of Exchange	18
	Banking consists of the **Exchange** of **Money** for **Credit**, and of **Credit** for **Credit**	19
13.	Meaning of the word **Property**	20
14.	**Property** is a **Right** and not a **Thing**	20

PAGE

§ 15. Property in English is a Right and not a Thing . . 21
16. On **Right of Property** and **Right of Possession** . 22
17. Meaning of **Persona** in Roman Law 23
18. Meaning of **Res** in Roman Law 24
19. **Commerce** or **Economics** is the Science which treats of the **Exchanges of Rights** 25
Wealth in **Economics** means an **Exchangeable Right** 25
20. On the Application of the **Positive** and **Negative Signs** to **Property** 26
21. On the Classification of Property 27
Property in Land 28
Personal Credit 29
22. Every Sum of Money is equivalent to the Sum of the Present Values of an Infinite Series of Future Payments . . 30
23. On the Distinction between **Rights** to **Things**, or *Jura in Re:* and **Rights** against **Persons**, or *Jura in Personam* 30
24. Definition of **Value** 32
25. On **Money** and **Credit** 33
On **Barter** 33
26. On the Want which gave rise to the use of Money . . 34
27. Nature of Money 35
Money is a **Right** a **Title** to demand something from some one else 35
Money is **General Credit** 36
28. Aristotle, Bishop Berkeley, the Physiocrates, Smith, Thornton, Mill, and Jurists have seen the true Nature of Money . 36
Gold and **Silver Money** are **Metallic Credit** . . 40
29. Different Substances used as Money 40
30. On **Credit** 41
Money and **Credit** are **Rights** to demand something to be paid or done by some person 43
31. Reason why Paper can supersede Metallic Money . . . 44
32. The Distinction between **Money** and **Credit** . . . 45
33. On **Barter, Sale** or **Circulation** and **Exchange** . . 46
34. On the Meaning of **Circulating Medium** 48
35. On the Meaning of **Currency** 49
36. The Different Forms of **Currency** 51
37. On the **Channel of Circulation** 52
38. The Fundamental Concept of Monetary Science . . . 54
39. On **Securities for Money** and **Convertible Securities** 55
40. On **Price** 57
The Term Value of Money has Two Distinct Meanings . 57
41. On **Interest** and **Discount** 58
42. On **Production** 59
43. Three Different Classes of Producers 60

PAGE

§ 44. On **Consumption** 62
45. Meaning of "Production and Consumption" . . . 64
46. On **Supply** and **Demand** 65
47. On **Cost of Production** 67
48. On **Productive Labour** 67
49. On **Profit** and **Rate of Profit** 67
50. On **Payment, Discharge** and **Satisfaction** . . . 68
51. On **Capital** 70
Definition of Capital 71
Personal Qualities as Capital 72
Personal Qualities as Labour 72
Personal Qualities as Credit 73
Rights as Capital 73
52. There is no such thing as Absolute Capital 74
53. Capital may increase in Two distinct ways 74
54. On **Fixed** and **Circulating Capital** 77
On **Fixed Capital** 77
On **Floating Capital** 78
55. On the Conversion of Floating into Fixed Capital . . . 80
56. On the **Three Ambiguities** in the **Theory** of **Credit** 81
First Ambiguity—A **Debt** is not **Money owed** by the Debtor, but the **Personal Duty to pay** Money 81
57. **Second Ambiguity** — The word **Debt** means the Creditor's **Right of Action** as well as the Debtor's **Duty to pay** 83
58. **Debt** in English Law means a **Right of Action** . . 84
59. **Third Ambiguity**—On the double meaning of the words "**Lend**," "**Loan**," "**Borrow**," or the Distinction between **Mutuum** and **Commodatum** . . . 88
60. Meaning of **Commodatum** 90
61. Meaning of **Mutuum** 91
62. Theophilus on the Mutuum and Commodatum . . . 93
63. Distinction between a **Debt** and a **Bailment** . . . 95
64. Summary of Definitions 98

CHAPTER II

THE THEORY OF VALUE

Preliminary Remarks 102

Section I

Definition of Value

1. The Definition of **Value** 103
2. **Reciprocal Demand** is the **Origin** of **Value** . . 104
The **Value** of any Economic Quantity is any **other** Economic Quantity for which it can be exchanged . 104

PAGE

§ 2. **Value** is a **Ratio** or an **Equation** 105
A Single Object cannot have Value 105
3. Any Economic Quantity can have Value in terms of any other 106
The **Value** of an **Incorporeal Right** is the **Thing Promised** which may be **Demanded** . . . 106
Money is a **Right** or **Title** to demand any Product or Service 107
4. The **Value** of any Economic Quantity increases or decreases according to the **Quantity** of other things it will purchase 107
5. There may be a General Rise of Prices but not of Values . 108
6. Error of the Expression **Intrinsic Value** . . . 109
Barbon points out the error of Intrinsic Value . . . 109
Origin of the confusion on Value 110
7. Distinction between **Diminution in Value** and **Depreciation** 112
8. A **Standard of Value** is impossible: but there may be a **Measure of Value** 114

Section II

On the Origin, Cause, or Form of Value

9. Fundamental conditions of the Inquiry 118
10. Example of Baconian Induction 119
11. **Demand** is the **Sole Cause** of **Value** 120
Ancient writers unanimously held that Demand is the Cause of Value 120
All Foreign Economists hold that Demand is the Cause of Value 121
12. Error of the doctrine that **Labour** is the **Cause** of **Value** 123
Locke the originator of the doctrine that all Value is due to Labour 123
Examples of the fallacy that Labour is the Cause of Value 126
13. Even where Labour has been bestowed on anything which has Value, it is not **Labour** which is the **Cause** of its **Value**: but the **Demand** for it 128
Self-contradiction of Smith, Ricardo, and McCulloch on the Cause of Value 128
14. **Demand** is the **Sole Origin, Cause,** or **Form** of **Value** 131
It is not **Labour** which is the **Cause** of **Value**: but **Value** which is the **Cause of,** or **Inducement to, Labour** 131
It is not the **Labour** of the **Producer** which constitutes a thing **Wealth,** but the **Demand** of the **Consumer** 132

PAGE

§ 15. **Demand** confers **Value** on Things on which no **Labour** was ever bestowed 132
16. **Credits** or **Debts** have **Value** because they will be paid in **Money** 133

SECTION III

On the General Law of Value: or the General Equation of Economics.

17. General Principles of the Inquiry 135
There can be only **One General Law** of **Value** . . 136
18. Application of the principles of the *Continuity* of *Science* to determine the General Equation of Economics . . 136
19. Meaning of saying that Economics is a Physical Science . 137
20. Lord Lauderdale's Law of Value 138
The **General Equation** of **Economics** 138
Economics is an **Exact** but not a **Precise** Science . 140
Economics is a **Positive Inductive Physico-Moral Science** 141

CHAPTER III

THE THEORY OF THE COINAGE

1. **Values** are estimated in **Money** and **Credit** . . 142
2. Meaning of **Bullion** 142
3. Standard of Gold and Silver Bullion 143
4. Meaning of **Coin** 143
5. Relation of Coin to Bullion 143
6. Invention of Coining 145
7. Meaning of the **Mint Price** of Gold and Silver . . 146
8. It is not an Economic error to **Fix** the Mint Price of Bullion 147
9. Meaning of the **Market Price** of Gold and Silver . . 148
10. If a change takes place in the Relative Value of the Gold and Silver Coins, to determine whether it is due to an **Alteration** in the **Value** of Gold and Silver, or to a **Depreciation** of the Coinage 150
11. On **Gresham's Law** of the **Coinage** 151
12. What is a **Pound?** 153
13. Introduction of a Gold Coinage in England 155
How Gold became the Standard Coinage of England . . 155
14. The Silver Coinage 156

CHAPTER IV

THE THEORY OF CREDIT

PRELIMINARY REMARKS 157
The trade in Debts the most colossal branch of modern Commerce 157

PAGE

§ The System of Credit, Banking, and Bills of Exchange was originated by the Romans 159
The Theory of Credit brought to perfection by the Roman Lawyers 159
Mathematicians err in their application of the term "**Negative**" to Debts 160

SECTION I

On the Origin of the System of Credit, Banking, and Bills of Exchange in Europe

1. Methodical business habits of the Romans 161
2. Banking invented by the Romans 161
3. On the Family Ledgers of Roman citizens 163
4. On the Method of contracting a Loan among the Romans . 164
5. On the *Stipulatio*, or Verbal Contract 166
6. On *Arcaria Nomina* 166
7. On the *Obligatio Litteris*, or Written Contract . . . 167
8. On the *Obligatio Consensu*, or Consensual Contract . . 168
9. The Roman Bankers invented Bills of Exchange . . . 168
10. On Transferable Documents of Debt 169
11. On the Greek Trapezitæ 171

SECTION II

On the Nature of Credit

12. **Personal Qualities** are **Wealth** 173
13. On the Creation of **Obligations** 176
14. Division of Opinion among Jurists as to the Case of the Debtor in the Obligation 177
15. Advantage of adopting the Conception of Economics as the Science of Exchanges, or of Commerce 179
16. On an Erroneous Idea as to the Nature of Credit . . 180
17. On the Error made by some Mathematicians in terming Debts **Negative** Quantities 182
18. Error of Peacock 185
19. On the Application of the **Theory** of **Algebraical Signs** to **Economics** 186
20. All Sciences deal with **Quantities** and **Operations** . 188
21. Examples of the Algebraical Signs applied to Quantities . 190
22. Examples of the Algebraical Signs applied to Operations . 192
23. The Terms Positive and Negative are also used by Jurists to denote Opposition 193
24. Example of the Application of the Positive and Negative Signs to Time 194
25. The Theory of the Value of Land 195

PAGE

§ 26. A Person exercising any Profitable Business is an Economic Quantity analagous to Land 196
27. If **Money** is termed **Positive Capital** Credit may be termed **Negative Capital** 197
28. On **Debts** as **Negative Quantities** 198

Section III

On the Transfer of Credits, or Debts

29. Debts are Saleable Commodities 200
30. On Property held in Contract, or on *Jura in Personam* . 201
31. Unilateral and Bilateral Contracts 202
32. On the Sale or Transfer of Debts in Roman Law . . 204
33. The Prætorian Jurisdiction 205
34. The Sale of Debts made free 208
35. Quotation from Azo 209
36. Bills of Exchange negotiable by the Mercantile Law of Europe 209
37. On the Principles of English Law and Equity relating to the Sale or Transfer of Debts . . . . . .
38. Lord Coke's reason erroneous 212
39. Property under the Feudal System 212
40. Nature of Feudal Society 213
41. Appointment of a Royal Commission to prepare a Digest of the Law 214
42. Contract between Lord and Vassal 216
43. On the Rules of the Common Law of England relating to the Transfer of *Choses-in-action* 218
44. Feuds and Charters made Assignable 219
45. Case in which the Debtor had not assented to the Transfer of the Debt 221
46. General Results of the preceding Cases 222
47. The King's Bench holds that Promissory Notes could not be sued upon at Common Law 223
48. Similar Decisions of the Court of Session 225
49. Grounds of Lord Holt's Decisions 225
50. In *Grant* v. *Vaughan* the King's Bench holds these Cases erroneous 226
51. Lord Holt's Cases in modern times supposed to be correct . 227
52. Respondentia Bonds held assignable 228
53. The Opinion of some Judges on the Transfer of *Choses-in-action* 228
54. On the Property of the Transferee in Instruments Lost or Stolen 231
55. On the Origin of the Dogma that *Choses-in-action* are not Assignable at Common Law 234

PAGE

§ 56. Obligations under the Feudal System 235
57. For 550 years the Courts of Common Law held *Choses-in-action* Assignable 236
58. Bills and Notes were **Deeds**, or Specialties in English Law 236
59. Signature substituted for Seals 237
60. Modern doctrine due to Lord Kenyon 238
61. Case of *Johnson* v. *Collings*, in 1800 239
62. Propositions contained in the general Dogma . . . 239
63. Lord Mansfield founder of Mercantile Jurisprudence . . 240
64. The Case of *Bovill* v. *Dixon* 244
65. The Author selected by the Law Digest Commissioners to prepare the Digest of the Law of Bills of Exchange . 248
66. The Case of *Crouch* v. *The Credit Foncier of England* . . 252
67. Points of Conflict between the principles held in this case and those in the Author's Digest 256
68. The Case of *Goodwin* v. *Robarts* 259
69. *Choses-in-action* made Transferable by Statute . . . 263

SECTION IV

Upon Instruments of Credit

70. Meaning of Instrument of Credit 265
71. Origin of Bills of Exchange 266
72. Revival of Banking in Europe 267
73. The Statute of Merchants 269
74. Promissory Notes payable to bearer in common use in the time of Edward IV. 269
75. The word Bill included Deeds 272
76. Bank Post Bills 274
77. On Bills of Exchange, Drafts, and Promissory Notes . . 275
78. Definition of a Draft 277
79. Definition of a Promissory Note 278
80. Upon Indorsement 279
81. On Banking Instruments of Credit 281
82. Bankers' Notes and Cheques 283

SECTION V

On the Extinction of Obligations

83. On the Limits of Credit 285
84. On the Extinction of Obligations 287
85. On Release, or *Acceptilatio* 288
86. Application of Algebra and Roman Law to Commerce . . 288
87. The Release of a Debt in all cases Equivalent to a Donation or Payment in Money 289

PAGE

§ 88. The same continued 290
89. On *Confusio*, in Roman Law 291
90. The Release of a Debt may Extinguish an Obligation in Two ways 292
91. When + £100 cancels — £100, and when it does not . 292
92. On Payment in Money 293
93. On Renewal, or Transfer: or *Novatio* 294
94. On *Delegatio* 295
95. A Set Off: or *Compensation* 296
96. Compensation allowed as a Right 296
97. Set Off allowed as a Right 297
98. Examples of Set Off, or Compensation 297
99. On the Quantity of Credit compared to the Quantity of Money 299
100. Two Branches of the System of Credit 300

CHAPTER V

ON COMMERCIAL CREDIT

1. Application of Credit in Commerce 302
2. On the System of Credit based upon simultaneous Transfers of Commodities 302
3. Debts made transferable 304
4. Credit used by Foreign Merchants 305
5. Exaggerated Ideas of the Security of Real Bills . . . 306
6. On Accommodation Bills 307
7. Distinction between Bills of Exchange and Bills of Lading . 309
8. On Credit created for the purpose of being applied to the Formation of New Products 311

CHAPTER VI

THE THEORY OF BANKING

1. Application of the Juridical Theory of Credit to the business of Banking 313
2. On the Meaning of the word **Bank** 314
3. Meaning of Bank in English 316
4. Meaning of the word **Banker** 318
5. On the Currency Principle 321
6. On the Mechanism of Banking 324
7. On the Common Error respecting Deposits 327
8. In Banking Language a **Deposit** and an **Issue** are the same 330
9. On the method of Utilising Banking Credits . . . 331
10. Operations by means of Cheques 332

PAGE

11. On the Legal Relation between Banker and Customer . . 333
12. On the Legal Contract between Banker and Customer . . 334
13. Error of the Common Description of Banking . . . 336
14. On the Clearing House 337
15. On the Caution necessary in applying Mathematics to Economics 339
16. On the Scotch System of Banking 341
17. On Cash Credits 344
18. Fundamental Concept 344
19. Cash Credits granted in aid of Persons 345
20. On Cash Credits granted to promote Agriculture and other Public Works 347
21. Public Works created by means of Cash Credits . . . 348
22. Credit may purchase Labour as well as Commodities . . 349
23. On Banks of *Credit Fonçier:* or Land Banks . . . 351
24. On the Economical Effects of Banking 354
25. Contrast between the Common Notions about Banking and the Reality 357
26. How Credit is Capital to a Banker 358
27. On Accommodation Bills 359
28. Explanation of the Real Danger of Accommodation Bills . 361
29. On the Danger of Accommodation Paper to a Bank . . 363
30. The Case of *Laurence, Mortimer & Co.* 364
31. On the Transformation of Temporary Credit into Permanent Capital 369

CHAPTER VII

THE THEORY OF BANKING DISCOUNT

1. Meaning of Discount 372
2. On Banking Discount 373
3. Table of Profits 374
4. To find in what Time a Sum of Money will double itself at Simple Banking Discount 375
5. Figures exhibiting differences of Discount and Interest . 375
6. To find the Amount of a given Sum in any Time at Compound Banking Discount 377
7. To find in what Time a Sum of Money will double itself at Compound Banking Discount 378
8. Formulæ for the Amount of a Sum at Interest and Discount, Simple and Compound 379
9. To find the difference in Profit between Discounting Long and Short Bills 379
10. To find the Profit on Discounting at more frequent intervals than a year 380

CHAPTER VIII

ON THE FOREIGN EXCHANGES

§			PAGE
§	1.	Definition of an **Exchange**	381
	2.	On the **Nominal** Exchange	382
	3.	Effect of a Depreciated Coinage	382
	4.	No Par of Exchange between countries which use different Metals as a Legal Standard	384
	5.	If the Coinage is in a Depreciated State, to determine whether the Exchange is Favourable, at Par, or Adverse	384
	6.	On Inconvertible Paper Money	386
	7.	Lord King's Law of Paper Money	387
	8.	On the **Real**, or **Commercial** Exchange	389
	9.	On Exchange with Four Parties	390
	10.	The Time Par of Exchange	391
	11.	On Foreign Exchange	392
	12.	Effects of the Exchanges being Favourable or Adverse to London	393
	13.	Exchange between London and Places from which it Receives the Variable Price	393
	14.	Exchange between London and Places to which it Gives the Variable Price	394
	15.	On the Limits of the Variations of the Exchanges	395
	16.	Effects of the Restoration of the Coinage on the Exchanges.	396
	17.	On Exchange Operations	397
	18.	On the Real or Commercial Exchange	401
	19.	The Mercantile System	403
	20.	The "Balance of Trade"	404
	21.	Examples of Foreign Trade	405
	22.	Further Example	408
	23.	Foreign Market	409
	24.	Example from New York	410
	25.	Bullion the least profitable article of Import	410
	26.	Cause of Export of Bullion	411
	27.	Causes of drain of Bullion	412
	28.	Russian and Irish Exchanges	413
	29.	Further Example of Foreign Trade	413
	30.	Foreign Trade may not require Export of Bullion	414
	31.	Error of "Balance of Trade"	415
	32.	On the Rate of Discount as influencing the Exchanges	417
	33.	On Foreign Loans, Securities, and Remittances, as affecting the Exchanges	418
	34.	Payment of the French Indemnity	421
	35.	The India Council Bills	427
	36.	On Monetary and Political Convulsions as affecting the Exchanges	430

PAGE

§ 37. On the Means of Correcting an Adverse Exchange . . 430

CHAPTER IX

ON THE HISTORY OF BANKING IN ENGLAND UNTIL THE RENEWAL OF THE BANK CHARTER IN 1800

1. Banking did not exist in England before 1640 . . . 433
2. Circumstances from which it sprung—Difficulties of King Charles I. 434
3. Dissolution of Parliament in 1640 434
4. Charles I. seizes the merchants' money in the Tower . . 435
5. The merchants obliged to keep their money at home . . 435
6. Afterwards they entrust it to the Goldsmiths . . . 436
These Goldsmiths were then called Bankers . . . 437
7. The Bankers lend money to Cromwell 437
8. They lend money to Charles II. 437
9. Their method of doing business with the Crown . . . 437
10. Much esteemed by the Government 438
11. The Dutch destroy Sheerness and Chatham 438
12. Which causes a run upon the Bankers 439
13. The Treaty of Dover, 1660 439
14. Charles II. obtains £800,000 from Parliament . . . 440
15. He quarrels with the Dutch—pecuniary difficulties . . 440
16. He shuts up the Exchequer, 2nd Jan., 1672, and seizes the Bankers' money in it 441
17. Great distress of the Bankers, Merchants, and others . . 441
18. Case of the Bankers in the Court of Exchequer, and the Exchequer Chamber—Judgment of Lord Somers . . 442
19. Reversed by the House of Lords in 1700 443
20. Many projects for Banks about this time, 1679 . . . 444
21. Great falling off in the Revenue, after the Revolution . . 444
22. Plans for raising money to carry on the War with France . 445
23. Which do not succeed 446
24. Paterson's three plans for raising money to carry on the War 446
25. The third attempt succeeds, and an Act passed for the establishment of the Bank of England 448
26. None but Commercial States had hitherto been able to raise money by way of Perpetual Annuities 448
27. Chief provisions in the Act relating to the Bank of England 448
28. Great hostility to its establishment 450
29. Mr. Michael Godfrey's pamphlet about the Bank . . . 451
30. First outbreak of a speculative mania in 1694 . . . 452
31. Great derangement of the Coinage in 1695 452
32. Parliamentary proceedings to remedy the disorder . . 454

PAGE

§ 33. Guineas rise to 30*s.*—great fall in the Exchange . . . 457
34. Lord Somers proposes to make the Coin current by weight, instead of by tale 458
35. Report of Mr. Lowndes on the State of the Coin . . . 459
He proposes to alter the current rate of the Coin . . . 460
36. Reply of Locke 462
Locke demonstrates the futility of Lowndes's plan . . 464
37. Confusion caused by the bad state of the Coinage . . 470
38. Committee appointed by the House of Commons to consider the price of guineas—numerous petitions . . . 471
39. Resolutions of Parliament on the price of guineas . . 472
40. Partial suspension of payments at the Bank . . . 473
41. Extracts from Evelyn's Diary about the Coinage . . . 473
42. The Reformation in the Coinage restores the Exchanges to par 474
43. Projected Land Bank—Bank Notes at 20 per cent. discount . 475
44. Parliament undertakes to restore the public credit, 1696 . 476
45. An Act for increasing the Capital of the Bank first creates a monopoly on its behalf 476
46. First Issue of Exchequer Bills 478
47. Increase of Capital by the Bank, and Bank Notes rise to par 478
48. Unfortunate effects of the monopoly granted to the Bank of England 478
49. Extract from the Bullion Report 479
50. Certain allegations in this extract 482
51. Which are shown to be erroneous 482
52. This monetary crisis important in the Theory of the Currency 484
53. Large amount of the Bank Notes probably contributed to increase the discount it fell to 484
54. Error in allowing the old and new Coin to circulate together 484
55. Writers of this period always said that Notes were at a discount, and not that Gold had risen 485
56. Conduct of the Directors impugned by some of their Proprietors 485
57. The Bank in difficulties in 1704 and 1709 486
58. Act of 1709, enlarging the Capital of the Bank . . . 486
59. Prohibition of Banking partnerships of more than six persons 487
60. This clause effectual at that time 488
61. Extension of the Bank Charter in 1713 to 1742 . . . 488
62. Bank of England exempted from Usury Laws in 1716 . . 488
63. Disorder of the Coinage in 1708 489
Report of Newton on the Coinage 489
Guineas finally fixed at 21*s.*; and the Mint Price of Gold at £3 17*s.* 10½*d.* 494
64. South Sea Company's proposals regarding the Public Debt . 495
65. Bank of England's proposals 496

			PAGE
§	66.	Great contest between the Bank and the South Sea Company in 1720	496
	67.	Proposals of the Bank, and amended proposals of both	497
	68.	Victory of the South Sea Company	497
	69.	Bursting of the bubble mania	498
	70.	Bank purchases a portion of the South Sea Annuities, and run upon the Bank	498
	71.	Formation of the Reserve Fund, or Rest	499
	72.	Renewal of the Charter in 1742, and extension of the Monopoly	500
	73.	Rebellion in Scotland in 1745, and run upon the Bank	501
	74.	Increase of Capital in 1746	502
	75.	Bank issues £10 and £15 Notes in 1759	502
	76.	Great failures on the Continent in 1763	502
	77.	Renewal of the Charter in 1764	504
	78.	Great failures in England in 1772	504
	79.	Rise in the market price of Gold, from the deterioration of the Coinage	504
	80.	Renewal of the Charter in 1781	505
	81.	Great development of mechanical genius in England, and increase of country Bankers during the American War	505
	82.	Which gives rise to a great multiplication of country Bank Notes	506
	83.	Derangement of the Foreign Exchanges	507
	84.	Crisis in 1783	507
	85.	Doctrine of Mr. Bosanquet	508
	86.	Apparent prosperity after American War	508
	87.	Declaration of War in 1793, and commercial panic	509
	88.	Pressure on the London Bankers	510
	89.	Sir Francis Baring blames the conduct of the Bank in 1793	510
	90.	Three different causes for a demand for guineas	511
	91.	Great commercial crisis in England and Scotland	511
	92.	Appointment and Report of the Committee of the House of Commons	512
	93.	Committee recommend an issue of Exchequer Bills	512
	94.	Sums sent down to Manchester and Glasgow allay the panic	513
	95.	Great success of this measure	513
	96.	Opinions of contemporary writers	513
	97.	Approved by the Bullion Report	514
	98.	Difference of opinion respecting it	514
	99.	Reply to such objection	514
	100.	London Bankers discontinue the issue of Notes	515
	101.	Commencement of embarrassments in 1795, which led to the suspension of cash payments in 1797	516
	102.	Cause of part of the embarrassment, according to Sir Francis Baring	516

		PAGE
§ 103.	Advances by the Bank to Government contrary to its Charter	516
104.	Act obtained by Mr. Pitt, and pressure exerted by him on the Bank	518
105.	Mr. Pitt pays no attention to the remonstrances of the Directors	518
106.	Fall of the Foreign Exchanges, and extension of the issues by the Bank	519
107.	Commencement of a drain of Gold in 1795	519
108.	Meeting of Parliament—great failure of the harvest	520
109.	Proposal of further loans; remonstrance of the Bank	521
110.	Rule for the restriction of discounts, 31st December, 1795	521
111.	Directors inform Mr. Pitt that a further loan would be fatal to the Bank	521
112.	Unscrupulous conduct of Mr. Pitt	522
113.	Great fall in the Exchange with Hamburg	522
114.	Complaint of the merchants of a want of circulating medium	522
115.	Mr. Pitt solicits further loans from the Bank	523
116.	Mr. Pitt again demands further loans from the Bank	524
117.	Exchanges become favourable, but the Bank continues its restrictive policy	524
118.	Gloomy condition of the political situation of the country in 1796	525
119.	Demand of guineas for Ireland in January, 1797	526
120.	Mr. Pitt demands £1,500,000 in gold for Ireland, on 1st Feb., 1797	526
121.	Great run upon the Newcastle Banks, which stop payment	526
122.	Great drain of Bullion from the Bank of England; proposal of a suspension of cash payments	527
123.	Great contraction of the Bank's issues in February, 1797	528
124.	Meeting of the Cabinet, on Sunday, 26th February, 1797; and order in Council directing a suspension of cash payments	528
125.	The King sends a Message to Parliament	528
126.	State of the cash in the Bank when it stopped payment	529
127.	Relief produced by the stoppage of cash payments; and extension of the Bank's issues	529
128.	Reports of the Committees of both Houses of the flourishing state of the Bank	529
129.	Provisions of the Bank Restriction Act	529
130.	Country Banks allowed to issue Notes under £5.	530
131.	Scotch Banks allowed to issue Notes under 20*s*.	530
132.	Definition of the "Circulating Medium," by Mr. Pitt, agrees with the principles of this work	530
133.	Conflicting opinions respecting the stoppage of payment	531
134.	Point to be determined	531
135.	Opinion of Mr. Henry Thornton	531
136.	Opinion of Mr. Walter Boyd	532

PAGE

§ 137. Opinion of Mr. George Ellison 532
138. The Bullion Committee condemns the policy of the Bank in 1793 and 1797 532
139. Erroneous policy of the Directors in 1795 532
140. This crisis in a great measure owing to the monopoly of the Bank 533
141. Suspension of cash payments must probably have taken place at some period of the War 534
142. The Bank authorised to issue £1 and £2 Notes . . . 535
143. The Exchanges favourable when the stoppage took place . 536
144. Restriction prolonged to the end of the War . . . 536
145. Sir William Pulteney's motion to establish a new Bank . 537
146. Great influx of gold in 1798 537
147. Great scarcity in 1800 538
148. Rise in the market price of gold in 1800 538
149. Renewal of the Bank Charter in 1800 538
150. Results of the two theories; and Stoppage of the Bank of England 539

THE

THEORY AND PRACTICE

OF

BANKING

CHAPTER I

DEFINITION OF TERMS

1. **Banking** is a department of the great Science of **Economics:** or the Science of **Exchanges;** or of **Commerce** in its widest extent and in all its forms and varieties

The term Economics is compounded of the Greek words οἶκος and *νόμος*

Οἶκος in Greek means **Property** of every sort and description: it is the technical term in Attic Law for a person's whole substance and estate in whatever form: it includes not only such Material Property as lands, houses, money, jewelry, corn, cattle, timber, &c., but also all such Property as **Rights of action,** Bank Notes, Bills of Exchange, the Funds, Shares in Commercial Companies, the Goodwill of a business, Copyrights, Patents, Policies of Insurance, and all Property which consists in mere abstract Rights, which in Law are termed Incorporeal Property

Νόμος in Greek means a Law

Hence Economics is the Science which treats of the **Exchanges** of all the different species of Property: it is the Science which treats of *the Laws which govern the Relations of*

Exchangeable Quantities: or the Principles and Mechanism of **Commerce** in all its forms: it is sometimes called the *Theory of* **Value**: or the *Science of* **Wealth**

Banking, as will be explained more fully hereafter, is that department of the General Science of Economics, or Commerce, which treats of the **Exchanges** of **Money** for **Credit,** and of **Credit** for **Credit**

Definition of **Wealth** *or of an* **Economic Quantity**

2. As Economics treats exclusively about things so far as they are **Wealth,** it is necessary to define clearly what is the technical meaning of the term **Wealth**

Ancient writers unanimously held that **Exchangeability,** or the capability of being bought and sold, is the sole essence and principle of **Wealth**: and that everything whatever which can be bought and sold, or exchanged, is **Wealth,** whatever its nature may be

Thus Aristotle says—

"Χρήματα δέ λέγομεν πάντα ὅσων ἡ ἀξία νομίσματι μετρεῖται"

"*And we call* **Wealth all things** *whose Value can be measured in* **Money**"

So the eminent Roman Jurist, Ulpian, says—

"Ea enim **Res** est quæ **emi** et **venire** potest"

"*For that is* **Wealth** *which can be* **bought and sold**"

The most recent Economists agree in this definition. Thus Mill says—

"**Everything** therefore forms a part of **Wealth** which has a **Power of Purchasing**"

This is the Definition of Wealth which we adopt as the basis of the Science of Economics

A **Quantity** means anything which can be measured: hence an **Economic Quantity** means **anything** whose *Value can be measured in money*

The sole criterion, then, of anything being Wealth is—Can it be bought and sold? Can it be exchanged separately and independently of anything else? Can its Value be measured in Money?

This criterion may seem very simple: but in fact to apply it properly: to discern what is and what is not separate and independent Exchangeable Property: requires a thorough knowledge of some of the most abstruse branches of Law and Commerce

On the Three Species *of* Wealth *or of* Economic Quantities

3. Having then adopted Exchangeability, or the capability of being bought and sold, as the sole essence and principle of Wealth, we have next to discover how many distinct orders, or species of Quantities there are which satisfy this definition

Now, first, there are **Material Things** of all sorts, such as land, houses, cattle, corn, money, jewelry, &c., which can be bought and sold. Everybody now admits these things to be Wealth: therefore we need say nothing more about them here

There are, however, other things or orders of Quantities which can be bought and sold: and in modern times there has been a vast amount of controversy as to whether they should be admitted to be Wealth or not: and it is these species of Quantities which we have now to consider

Ancient Dialogue to shew that Personal Qualities *are* Wealth

4. There is a very remarkable work of antiquity extant, which is the earliest regular treatise that we are aware of, on an Economical question. It is a dialogue called the "Eryxias," or "On Wealth," and is frequently bound up with the dialogues of Plato, and is attributed to Æschines Socraticus, one of the most distinguished disciples of Socrates. Critics, however, unanimously pronounce it to be spurious, without being able to attribute it to any definite author. High authorities consider that it was probably written about the early Peripatetic Period

This dialogue is to the following effect:—The Syracusans had sent an embassy to Athens: and the Athenians had sent a return embassy to Syracuse. As the ambassadors were entering the city on their return from Syracuse, they met Socrates and a party of his friends, with whom they entered into conversation. Eryxias

one of the envoys, said that he had seen the richest man in all Sicily. Socrates immediately started a discussion on the nature of **Wealth.** Eryxias said that he thought upon the subject as every one else did: and that to be Wealthy meant to have much Money. Socrates asked him what kind of Money he meant: and he described the Moneys of various countries: at Carthage they used as Money leather discs in which something was sewn up, but no one knew what it was: and he who possessed the greatest quantity of this money at Carthage was the richest man there: but at Athens he would be no richer than if he had so many pebbles from the hill. At Lacedæmon they used iron as money, and that useless iron: he who possessed a great quantity of this at Sparta would be wealthy, but anywhere else it would be worth nothing. In Æthiopia again, they used carved pebbles, which were of no use anywhere else. Among the nomade Scythians a house was not wealth, because no one wanted a house, but greatly preferred a good sheepskin cloak. He shewed that if anyone could live without meat and drink they would not be wealth to him, because he did not want them. Socrates then asked why some things were Wealth and other things not Wealth? Why were some things Wealth in some places and not in others? He shewed that whether a thing is **Wealth** or not depends entirely upon **Human Wants** and **Desires:** that everything is Wealth where it is **Wanted** and **Demanded:** and that it is not Wealth where it is not Wanted and Demanded. That things are χρήματα, or Wealth, only when and where they are χρήσιμα, that is, where they are *Wanted* and *Demanded*

Thus we see that though some persons might be puzzled at the meaning of the word Wealth, there is no possibility of mistake when we refer to the Greek: because χρήματα, which is the usual word for Wealth, comes from χράομαι, to *Want* or *Demand:* consequently the word χρήματα, or Wealth, means simply anything whatever which is *Wanted* and *Demanded*: no matter what its nature may be

It is, then, **Human Wants** and **Desires** which alone constitute anything **Wealth:** anything whatever which people *want, demand*, and are willing to *pay for*, is Wealth, whatever its nature may be: and anything which no one wants and demands is not Wealth

Socrates shewed that gold and silver are only Wealth in so far as they enable us to obtain what we want and demand: and that if we can use anything else to obtain what we want and demand in the same way as gold and silver do, such things are Wealth, just for the same reason that gold and silver are

Socrates then instanced professors and persons who gained their living by giving instruction in the various sciences. He said that persons got what they wanted in exchange for this instruction, just as they did for gold and silver: and consequently that the Sciences are Wealth—*αἱ ἐπιστημαὶ χρήματα οὖσαι*: and that those who are masters of such sciences are so much the richer —*πλουσιώτεροί εἰσι*

Now in instancing the Sciences as Wealth, that of course is a general term for **Labour**: because **Labour** in Economics is any exertion of **Human Ability** or **Thought** which is *wanted, demanded,* and *paid for.* Thus the author of this dialogue expressly classes **Labour** under the term **Wealth**

Socrates in this dialogue shews that the **Mind** has wants and demands as well as the body: and that the things which are wanted and demanded for the Mind, and are paid for, are equally Wealth as those things which satisfy the wants and demands of the body, and are paid for

And this exactly agrees with Aristotle's definition that **everything** is **Wealth** whose *Value can be measured in money:* because if one person wants another to do any Labour or Service for him, and pays him for such Labour or Service, its *Value is measured in money,* as exactly as if it were a material chattel. Suppose that a person gives fifty guineas for a horse, and also fifty guineas for the opinion of an eminent counsel, the Value of the opinion is measured in money as exactly as the Value of the horse: and therefore they are both equally Wealth: and in fact all modern Economists treat Labour as a Commodity, which can be bought and sold, and is subject to exactly the same Laws of Value as any material chattel

Modern Economists include **Personal Qualities** *under the term* **Wealth**

5. And in accordance with the author of the Eryxias all

Economists of note since Smith include **Personal Qualities, Skill** and **Energy** under the term **Wealth**

Thus under the term **Fixed Capital** Smith enumerates "the acquired and useful **Abilities** of all the inhabitants, or members of the society. The acquisition of such **Talents,** by the maintenance of the acquirer during his education, study, or apprenticeship always costs a real expense, which is a Capital fixed and realised as it were in his person. These **Talents** as they make part of his **Fortune,** so do they likewise that of the society to which he belongs"

So J. B. Say says—"He who has acquired a **Talent** at the price of an annual sacrifice, enjoys an accumulated Capital, and this **Wealth**, though immaterial, is nevertheless so little fictitious, that he daily exchanges the exercise of his art for gold and silver"

"Since it has been proved that **Immaterial Property** such as **Talents** and acquired **Personal Abilities** form an integral part of Social **Wealth**"

"You see that Utility, under whatever form it presents itself, is the source of the Value of things: and what may surprise you is that this Utility can be created, can have Value, and become the subject of an Exchange, without being incorporated in any material object. A manufacturer of glass places value in sand: a manufacturer of cloth places it in wool: but a physician sells us a Utility without being incorporated in any matter. This Utility is truly the fruit of his studies, his Labour and his Capital. We buy it in buying his opinion. It is a real product, but immaterial"

Say calls all species of Labour and Services Immaterial Wealth, because they are vendible products or commodities, but not embodied in any matter. We may also call them **Personal Wealth,** because they are always the products of some **Person**

Senior says—"If the question whether **Personal Qualities** are articles of **Wealth** had been proposed in classical times, it would have appeared too clear for discussion. [We have already seen that the question was discussed in classical times.] The only differences in this respect between a freeman and a slave

are, first, that the freeman sells *himself*, and only for a period, and to a certain extent: the slave may be sold by others, and absolutely: and secondly, that the Personal Qualities of the slave are a portion of the Wealth of his master: those of the freeman, so far as they can be made the subject of Exchange, are part of his own Wealth. They perish indeed by his death, and may be impaired or destroyed by disease, or rendered valueless by any change in the custom of the country, which shall destroy the Demand for his services: but, subject to these contingencies, they are **Wealth**, and Wealth of the most valuable kind. The amount of revenue derived from their exercise in England far exceeds the rental of all the lands in Great Britain"

So also—"Even in our present state of civilisation, which high as it appears by comparison, is far short of what may be easily conceived, or even of what may be confidently expected, the **Intellectual** and **Moral Capital** of Great Britain far exceeds all the **Material Capital,** not only in importance, but in productiveness. The families that receive mere wages probably do not form a fourth of the community: and the comparatively larger amount of the wages even of these is principally owing to the Capital and Skill with which their efforts are assisted and directed by the more educated members of the society. Those who receive mere rent, even using that word in its largest sense, are still fewer: and the amount of rent, like that of wages, principally depends on the knowledge by which the gifts of nature are directed and employed. The bulk of the national revenue is profit: and of that profit the portion which is merely interest on Material Capital probably does not amount to one-third. The rest is the result of **Personal Capital,** or, in other words, of Education

"It is not in the accidents of the soil, in the climate, in the existing accumulation of the material instruments of production, but in the quantity and diffusion of this **Immaterial Capital** that the **Wealth** of a country depends. The climate, the soil, and the situation of Ireland have been described as superior, and certainly not much inferior to our own. Her poverty has been attributed to the want of Material Capital: but were Ireland now to exchange her native population for seven millions of our English North countrymen, they would quickly create the Capital

that is wanted. And were England North of the Trent to be peopled exclusively by a million of families from the west of Ireland, Lancashire and Yorkshire would still more rapidly resemble Connaught. Ireland is physically poor, because she is morally and intellectually poor. And while she continues uneducated, while the ignorance and violence of her population render persons and property insecure, and prevent the accumulation, and prohibit the introduction of Capital, legislative measures, intended solely and directly to relieve her poverty may not indeed be ineffectual, for they may aggravate the disease, the symptoms of which they are meant to palliate, but undoubtedly will be productive of no permanent benefit. **Knowledge** *has been called Power—it is far more certainly* **Wealth.** Asia Minor, Syria, Egypt, and the northern coast of Africa, were once among the richest, and are now among the most miserable countries in the world, simply because they have fallen into the hands of a people without a sufficiency of the Immaterial sources of Wealth to keep up the Material ones"

So Mill says—"The **Skill** and the **Energy** and the **Perseverance** of the artizans of a country are reckoned part of its **Wealth,** no less than its tools and machinery." And why not the Skill and Energy and Perseverance of other classes as well as artizans? He also says—"Acquired capacities, which exist only as means, and have been called into existence by Labour, fall exactly, as it seems to me, within that designation"

So Madam Campan inscribed over the Hall of Study in her establishment at St. Germain—

"**Talents** are the ornament of the rich, and the **Wealth** of the poor"

We have thus already found two distinct kinds of things which can be bought and sold, or whose *Value can be measured in Money:* (1) Material Things which can be seen and handled, such as money, cattle, corn, &c.: and (2) Things which can neither be seen nor handled, but which can be bought and sold; and though these two kinds of things have nothing in common except the capability of being bought and sold, they are each for that reason comprehended under the term **Wealth**

General Rule of Roman Law that **Rights** *are* **Wealth**

6. But there is yet another order of Quantities, quite distinct from the two preceding ones, which can be bought and sold, or exchanged, and whose *Value*, therefore, *can be measured in Money:* and it is to this class of Quantities that the student must direct his most earnest attention; because it is the one which modern Economists have the greatest difficulty in apprehending: and it is the one with which we are chiefly concerned in this work

Suppose that a customer pays in a sum of money to his account at his banker's—What becomes of that Money? It becomes the absolute property of the banker to deal with in any way he pleases. The customer transfers the absolute property in the money to the banker: but he does not make him a present of it. He gets something in exchange for it. And what is that something? In exchange for the Money the banker gives his customer a **Credit** in his books: which is a **Right of action** to demand back an equivalent sum of money at any time he pleases. Furthermore, the banker agrees that his customer may transfer this Right of action, in the form of a Cheque or Bank Note, to any one else he pleases. So this Right of action may pass through any number of hands, and effect any number of exchanges, exactly like the same sum of money, until the holder of it demands payment of it and it is extinguished

This **Right of action** is termed a **Credit**: because any one who chooses to take it in exchange for goods or services knows well enough that it is not the Right or Title to any specific sum of money: but it is only an abstract Right against the *banker* to demand a sum of money from him: and it is only taken because the receiver has the belief or confidence that he can get money for it when he requires it

It will be convenient to state here that this **Right of action** is also in Law and common usage termed a **Debt**: and that the words **Credit** and **Debt** are used perfectly indiscriminately to mean a Creditor's **Right of action** against his Debtor. The reason of this will be explained in a subsequent section. And this Right of action or Credit, or Debt, is the **Price** which the banker pays for the money

Similarly, when a merchant sells goods "On Credit," as it is termed, to a trader, he cedes the Property in the goods to the trader, exactly as if he had sold them for Money. And in exchange for the goods the trader gives the merchant a *Promise to pay*, or a **Right of action** to demand the money some time —three months, perhaps—after date. This **Right of action** is also termed a **Credit** or a **Debt:** and it is the **Price** the trader pays for the goods. And if it be recorded on Paper in the form of a Bill of Exchange, it may be exchanged against other goods, and circulated in commerce, exactly like an equal sum of money, until it is paid off and extinguished

Again, suppose that the Government has need of a sum of money for some public purpose. It "borrows" Money, as it is termed, from private persons. That Money becomes the actual property of the Government to exchange as it pleases: and in Exchange for the Money, it gives to the "lenders" of it the Right to demand a series of payments either for ever, or for a limited term of years. These Rights are the Price the Government pays for the Money. In popular language they are termed the **Funds.** And the owners of these Rights may sell them to any one else they please. They are Saleable Commodities

Suppose, again, that a person subscribes to the Capital of a Commercial Company. He pays the Money to the Company: the Money becomes the property of the Company as a whole, and not of any individual member of it. In exchange for the Money the subscriber receives the Right to share in the profits to be made by the Company in the proportion in which he subscribed to the Capital. These **Rights** are termed **Shares:** and they are also Saleable Commodities: which may be bought and sold like any material chattels

So, when a trader has established a successful business, he has the Right to receive the future Profits to be made by the business. This Right to receive the future profits is a Property quite separate and distinct from and additional to the house or shop, and the actual goods in them. It is the product of labour, thought, and care as much as any material chattel, and is part of the trader's assets. It is termed the **Goodwill** of the business

An interesting example of this is given by Boswell. Thrale, the great brewer, appointed Johnson one of his executors. In that capacity it became his duty to sell the business. When the sale was going on, Johnson appeared bustling about with an ink-horn in his button-hole, like an exciseman, and on being asked what he considered the Value of the property to be disposed of, he answered, "We are not here to sell a parcel of vats and boilers, but the **Potentiality** of growing rich beyond the dreams of avarice." The sum realised was, we are told, £130,000, and the latter phrase was merely Johnsonese for the Goodwill of the business

When the great banking house of Jones Lloyd & Co. sold their business to the London and Westminster Bank, it was said in the papers that the sum paid was £500,000. And in a similar way every place of business in the country has a Goodwill of greater or less amount, which is a Valuable Commodity, and an asset of the trader's, just as much as the house or shop, and the material goods in it

So when an author has published a successful work, the Right to multiply and sell copies of it is a Valuable Right, quite separate and distinct from the printed copies of the work : and this Right is termed **Copyright :** and it may be bought and sold like any material chattel

It was said in the papers that the Copyright of the popular song, "Slap bang ! here we are again," sold for £2,000

So there is a vast variety of Rights of a similar nature : such as Patents, Trade Secrets, a Professional Practice, Policies of Assurance, and many others which we need not enumerate here, as we only wish to describe a distinct class or Order of Exchangeable Quantities ; and not to discuss all the different varieties of it

Now all these Abstract Rights of various sorts can be bought and sold or exchanged : they can neither be seen nor handled in that form : but their *Value can be measured in Money ;* and they can be transferred from one person to another as easily as any material chattels. They satisfy Aristotle's definition of Wealth.

They possess that Quality which Economists are now agreed is the sole essence and principle of Wealth : and therefore by the fundamental Laws of Natural Philosophy they are **Wealth**

7. Now in the Pandects of Justinian, which are the great Code or Digest of Roman Law, which is the basis of most of the existing Law of the Continent and of Scotland, and whose doctrines on Credit have always been adopted in Equity, and have recently been enacted by Statute as the Law of England, it is laid down as a fundamental General Rule—

"**Pecuniæ** nomine non solum numerata Pecunia, sed omnes **Res,** tam soli quam mobiles, et tam Corpora quam **Jura** continentur"

"*Under the term* **Wealth** *not only ready Money, but all Things, both immovable and movable, both Corporeal and* **Rights** *are included*"

So Ulpian, one of the most eminent Roman Jurists, says—

"**Nomina** eorum qui sub conditione vel in diem debent, et emere et vendere solemus. Ea enim **Res** est, quæ **emi** et **venire** potest"

"*We are accustomed to buy and sell* **Debts** *payable at a certain event and on a certain day. For that is* **Wealth** *which can be* **bought** *and* **sold**"

So also—"Æque **Bonis** adnumerabitur etiam si quid est in **Actionibus**"

"**Rights of action** *are properly included under the term* **Goods**"

Also—"**Rei** appellatione et **Causæ** et **Jura** continentur"

"*Under the term* **Property** *both* **Rights of action** *and* **Rights** *are included*"

It is so important to understand clearly that a mere Abstract Right, wholly severed from any specific money, is itself a Vendible Commodity, that we may give one more extract

Sir Patrick Colquhoun in his Summary of Roman Law says—

"The first requisite of the consensual contract of *emptio et venditio* is a **Merx,** or object to be transferred from the buyer to

the seller : and the first great requirement is that it should be *in commercio :* that is, capable of being freely **bought and sold.** Supposing such to be the case it matters not whether it is an immovable or a movable : corporeal or incorporeal : existent or non-existent : certain or uncertain : the property of the vendor or another : thus a horse, or a **Right of action,** servitude, or thing to be acquired, or the acquisition where it depends on chance

" A purchaser may buy of a farmer the *future crop* of a certain field. Wine which may grow the next year on a certain vineyard may be bought at so much a pipe : or a certain price may be paid irrespective of quantity or quality ; and the price would be due though nothing grew, or for whatever did grow. In the second case the bargain is termed *emptio spei :* and in the first and last *emptio rei speratæ :* which all such bargains are presumed to be in cases of doubt

" The cession of a **Right of action** being legal in the Roman Law, the Right of A to receive a Debt due by B may be sold to C "

Thus it is clearly seen that Abstract Rights of various sorts, including **Rights of action,** which in Law, Commerce and Economics are termed **Credits** or **Debts,** are expressly included in the terms **Pecunia** (*Wealth*): **Res** (*Property*): **Bona** (*Goods*): and **Merx** (*Merchandise*) in Roman Law

General Rule of Greek Law that **Rights** *are* **Wealth**

8. For nearly 500 years after Constantine removed the seat of Government to Constantinople, the language of the Court was Latin, but the people were Greek. Consequently, though the official language was Latin, it was unintelligible to the mass of the people. The great Code of Roman Law, termed the Pandects, was published in 530 A.D., but all the pleadings in the Courts were carried on in Greek. The Latin Pandects soon fell into desuetude : they were superseded by Greek treatises, translations, and compilations. The Latin Institutes of Justinian did not hold their ground in the curriculum of legal education for more than ten years. They were superseded by the paraphrase of Theophilus,

one of the Professors of Law who were charged with the compilation of the Institutes: and this paraphrase became the legal text-book throughout the Eastern Empire

At last, in the ninth and tenth centuries, under the Basilian dynasty, all the Pandects, Institutes, and Legislation of Justinian were set aside as obsolete. A new Digest or Code was published in Greek, called the **Basilica,** which thenceforth became the Law of the Eastern Empire: and has remained to the present time as the Common Law of all the Greek population in the East: and is the Common Law of the modern kingdom of Greece

And in the Basilica the Roman definition of Wealth is repeated—

"τῷ ὀνόματι τῶν χρημάτων οὐ μόνον τὰ χρήματα, ἀλλὰ πάντα τὰ κινητὰ καὶ ἀκινητὰ, καὶ τὰ Δικαια δηλοῦται"

Under the term χρήματα, or **Wealth, Rights** are included

And also—τῇ τοῦ Πράγματος προσηγορίᾳ καὶ Αἴτιαι καὶ Δίκαια περιέχεται

Under the term Πράγματα, **Chattels,** both **Rights of action** and **Rights** are included

In Greek Law these Rights are also included under the terms Ἀγαθά *(Goods)*: Περιουσία *(Estate)*: and Ἀφορμή *(Capital)*

Thus, by express enactment in Greek Law, the words χρήματα and πράγματα include Rights of all descriptions: and these words include all the Three orders of Exchangeable or Economic Quantities

In English Law **Property** *or* **Rights** *are included under the terms* **Goods and Chattels**

9. We have thus seen that all ancient jurists include abstract Rights of all sorts, and among them **Rights of action,** under the terms **Wealth, Goods, Chattels, Property,** and **Merchandise.** But the subject is of such great importance, and is so little understood by lay writers, that it will be of use to say something more about it

It is exactly the same in every system of Jurisprudence. In English Law, a **Right of action** for a sum of money, termed

a Debt or *Chose-in-action*, is included under the terms "**Goods**," "**Chattels**," "**Effects**." It is an article of Merchandise or a Saleable Commodity

Thus Sheppard says under "Chattels"—"All kinds of emblements, sown and growing, grass cut: all money, plate, jewels, utensils, household stuffs, **Debts**, wood cut, wares in a shop, tools and instruments for work, wares, merchandises, carts, ploughs, coaches, saddles, and the like: all kinds of cattle, as horses, oxen, kine, bullocks, goats, sheep, pigs, and all tame fowl and birds, as swans, turkeys, geese, capons, hens, ducks, poultry, and the like are accounted **Chattels**

"All Obligations, Bills, Statutes, Recognizances, Judgments, shall be as a **Chattel** in the executor"

"All **Right of action** to any personal action is a **Chattel**"

So it was resolved by Popham, Chief Justice of England, and other Justices that—"**Personal actions** are as well included within the word "**Goods**" in an Act of Parliament as Goods in possession"

So in another case, Lord Chancellor Hardwicke said—"And **Debts** come within the words and meaning of the Act, and would pass in a will thereby"

Burnet, J., said—"A **Bond Debt** is certainly a **Chattel**"

Parker, L. C. B., said—"But **Goods and Chattels** include **Debts**. . . . **Things-in-action** are considered as **Goods and Chattels**"

So Blackstone says—"For it is to be understood that in our law **Chattels** (or **Goods and Chattels**) is a term used to express any property which, having regard either to subject matter or quantity of interest therein, is not freehold

"Property or Chattels personal may be either in possession or else *in action*. . . . Property in action is where a man has not the enjoyment (either active or constructive) of the Thing in question, but merely a Right to receive it by a suit or action at law"

Thus in English Law all such Property as Debts, Rights of action, Bank Notes, Bills of Exchange, the Funds, Shares in Commercial Companies, Copyrights, Patents, &c., are Goods and Chattels as much as any material chattel

Modern Economists include **Rights of action,** *i.e.*, **Credit** *or* **Debts** *under the term* **Circulating Capital**

10. Modern Economists since Smith also include Bank Notes, Bills of Exchange, &c., which are merely Rights of action, or Credit, or Debts, under the term Circulating Capital

Thus Smith expressly includes Money under the term Circulating Capital: and under the term Money he includes Paper, such as Bank Notes and Bills of Exchange, which are simply Rights of Action. Among several passages it will be sufficient to quote one here—

"Suppose different banks and bankers issue Promissory Notes payable to bearer on demand to the extent of one million, reserving in their different coffers £200,000 for answering occasional demands. There would remain, therefore, in circulation £800,000 in gold and silver, and £1,000,000 in Bank Notes; or £1,800,000 of Paper and Money together." He also observes that **Credits** in the Bank of Amsterdam are called **Bank Money.** Thus we see that Smith in this and numerous passages places Paper Credit exactly on the same footing as independent property, and of the same value, as gold and silver

So J. B. Say says—"The exclusive possession which in the midst of society clearly distinguishes the property of one person from that of another in common usage is that to which the title of **Wealth** is given. . . . Under this title are included not only things which are directly capable of satisfying the wants of man, either natural or social, but the things which can satisfy them only indirectly, such as Money, **Instruments of Credit** (*titres de créance*), the public Funds, &c.

Thus Say expressly includes **Instruments of Credit** and the **Funds,** which are mere **Rights of action,** under the term **Wealth:** but he also includes Bills of Exchange, Bank Notes, and Bank Credits under the term Capital

So Mill says that "Wealth is *everything* which has purchasing power:" and he says—

"An Order or Note of Hand, or Bill payable at sight for an ounce of gold [which is Credit] while the Credit of the giver is unimpaired, is worth neither more nor less than the gold itself"

"We have now found that there are other things such as Bank Notes, Bills of Exchange, and Cheques [which are Credit] which circulate as Money and perform *all* the functions of it"

Mill also designates Bank Notes as Productive Capital

So Professor Hunter speaks of **Debts** as **Marketable Commodities**

So also **Debts** are included under the term Movable Rights in Scotch Law

We need not multiply quotations: in fact, those we have already given are chiefly for the benefit of lay readers; because it is one of the most elementary principles of Mercantile Law, clearly explained and enforced by every Jurist in the world, that a simple abstract **Right of action**, or **Credit**, or **Debt** is included under the term Goods and Chattels, Merchandise, or a Vendible Commodity: and that a Right of action can be bought and sold, or exchanged, exactly like any material chattel

And when this conception is firmly grasped the whole difficulty and mystery which is sometimes supposed to envelope the subject of Credit and Banking vanishes: because the whole system of Credit and Banking consists in Creating, Buying and Selling, or Transferring, and Extinguishing that species of Goods and Chattels, Merchandise, or Commodities termed **Credits** or **Debts**

It is thus seen that the ancients possessed the true scientific instinct. They fixed upon a **Single General Quality** as the sole essence and principle of **Wealth**—namely **Exchangeability**, or the capability of being bought and sold. They then searched for and discovered all the different orders of Quantities which can be bought and sold, or exchanged: or whose *Value can be measured in Money:* and expressly classed them under

the terms Wealth, Merchandise, and Goods and Chattels. They found that there are Three, and only Three, distinct orders of Quantities which can be bought and sold, namely, (1) Material Things: (2) Labour or Services: and (3) Abstract Rights

And reflection will shew that there is nothing which can be bought and sold, which is not of one of these three forms. And these Three forms of Exchangeable Quantities may be symbolised by the words **Money, Labour,** and **Credit**—Money being taken as the type of all Material Things: Labour as the type of Services of all sorts: and Credit as the type of all the different forms of Abstract Rights. And all Commerce, in its widest extent and in all its forms and varieties, consists in the Exchanges of these Three orders of Quantities

There is no such Thing as **Absolute Wealth**

11. And as we have seen that all ancient writers held that the sole essence and principle of **Wealth** resides in **Exchangeability,** it follows as a necessary consequence that there is no such thing as **Absolute Wealth**—that is, there is nothing which is in its own nature **Wealth,** in all places and at all times. For anything to be Exchangeable it is necessary that some one else should want and **Demand** it. Things are only Wealth in those places and at those times when they are *wanted* and *demanded:* and consequently they cease to be Wealth when they cease to be wanted and demanded. Therefore the very same thing may be Wealth in some places and not in others: and among some people and not among others: and at some times and not at others

Commerce *or* **Economics** *consists of* **Six** *distinct kinds of* **Exchange**

12. There being, then, Three, and only Three, distinct orders of Exchangeable Quantities, Commerce consists in their Exchanges. And as these Three orders of Quantities can be combined two and two in **Six** different ways, it follows that Commerce in its widest extent consists of **Six** distinct kinds of Exchange. These different kinds of Exchange are—

1. A **Material** thing for a **Material** thing
As when gold money is exchanged for lands, houses, corn, timber, cattle, &c.
2. A **Material** thing for **Labour**
As when gold money is given as wages, fees, or salary for services done
3. A **Material** thing for a **Right**
As when gold money is given to purchase a Bill of Exchange, the funds, copyrights, shares, &c.
4. **Labour** for **Labour**
As when persons agree to perform reciprocal services for each other
5. **Labour** for a **Right**
As when wages, fees, or salaries are paid in bank notes, cheques, &c.
6. A **Right** for a **Right**
As when a banker buys one Right of action, such as a Bill of Exchange, and gives in exchange for it a Credit in his books, which is another Right of action

These **Six** species of Exchange comprehend all Commerce in its widest extent, and in all its forms and varieties. They constitute the great Science of **Economics**: or the science which treats of the Exchanges of Property

And of the general science of Economics the business of Banking consists in the two species of Exchange marked (3) and (6). It consists in the Exchange of

1. **Money** for **Rights of action,** or **Credit,** or **Debts**
2. One **Right of action** for another **Right of action**: or one kind of **Credit** or **Debt** for another kind of **Credit** or **Debt**

And it is this department of the complete Science of Economics which is the subject matter of this work

On the **Meaning** *of the word* **Property**

13. We have now seen that there are Three distinct classes or orders of Economic or Exchangeable Quantities (1) Material

Things: (2) Labour: (3) Abstract Rights: typified by the terms Money, Labour, and Credit

The next thing to be done is to find a General Term which will include all these orders of Quantities. And this general term we shall find in the word **Property.** And when we understand the true and original meaning of the word **Property,** it will throw a blaze of light over the whole science of Economics: and clear up all difficulties which the word Wealth has given rise to: in fact, the meaning of the word **Property** is the key to all Economics.

Most persons when they hear the word **Property,** think of some material things such as lands, houses, money, corn, cattle, &c. But that is not the true and original meaning of the word **Property**

Property in its true and original meaning is not any material thing, but the absolute **Right** to something

In early Roman Jurisprudence a man's possessions were called **Mancipium,** because they were supposed to be acquired with the strong hand in war: and if not retained with a very firm grasp would probably be lost again. The word Mancipium was applied not only to the things themselves but to the absolute ownership in them. Thus Lucretius says—

"Vitaque Mancipio nulli datur, omnibus usu"

"*And Life is given in absolute Ownership to none, but only as a Loan to all*"

In process of time a new word came into use. All the possessions of the family (*domus*) belonged to the family as a whole: but the head of the house, the *Dominus*, alone exercised all Rights over them. He alone had the absolute ownership of his *familia*, and all its possessions. Hence this Right was termed *Dominium:* and *Dominium* was always used in Roman Law to denote absolute **Ownership**

In the time of the early Emperors the extreme rigour of the *Patria Potestas* was relaxed: and in some cases the individual members of the family were allowed to have Rights to possessions independently of the head of the house and its other members: and this **Right** was termed **Proprietas**

The strict rigour of the *Patria Potestas* began gradually to be relaxed when the *Dominus* granted the exclusive Right to certain things to his sons and slaves. This was termed *Peculium*

The Emperors Augustus, Nero, and Trajan enacted that the sons of a family might possess in their own Right, and dispose of by will, as if they were *Domini*, what they acquired in war. This was called *Castrense Peculium*. This Right of holding possessions independently of other members of the family was considerably extended by subsequent Emperors: and it was termed *Proprietas*

Proprietas, therefore, in Roman Law meant the absolute and exclusive **Right** which a person had to anything independently of any one else: and was synonymous with *Dominium*. Neratius, a jurist of the time of Hadrian, says, "Proprietas id est Dominium." "**Property** which means **Ownership**"

The word *Proprietas* in Roman Law was never applied to a material thing, but meant the absolute Right to it: the thing itself was called *Materia*

The word **Property** *in English means a* **Right** *and not a Thing*

14. So, also, originally in English the word Property always meant a **Right** and **not** a **Thing**

Thus grand old Wycliffe says—"They will have Property of ghostly goods where no Property may be: and leave Property in worldly goods where Christian men may have Property"

So Bacon invariably uses the word Property to mean a Right, and not a Thing. He says one of the uses of the law "is to dispose of the **Property** of their goods and chattels." He explains the various methods by which **Property** in goods and chattels may be acquired. So he speaks of the "**Property** or **Interest** of a timber tree:" and in many other cases

Property, then, in its true and original sense, means solely a Right, Title, Interest, or Ownership: and consequently to call material things like lands, houses, money, cattle, &c., Property, is as great an absurdity as to call them Right, Title, Interest, or Ownership

Neither Bacon, nor as far as we are aware, does any writer of his period, call material goods Property; such a use of the word is quite a modern corruption, and we cannot say when it began

Every Jurist knows that the true meaning of the word Property is a Right. Thus Erskine says—"The sovereign or real **Right** is that of **Property,** which is the Right of using and disposing a subject as our own, except in so far as we are restrained by law or paction"

And this meaning of the word Property has been recognised by Economists as well as by Jurists. Thus Mercier de la Rivière, one of the most eminent of the early French Economists, says—"**Property** is nothing but the **Right** to enjoy. . . . It is seen that there is but one **Right** of **Property**; that is a Right in a person: but which changes it name according to the nature of the object to which it is applied"

Thus Landed Property means Rights to Land: Funded Property means Rights to payments from the nation: Real Property means Rights to Realty: Personal Property means Rights to Personality: Literary Property means Rights to the profits from works of literature or art: Newspaper Property means the Right to publish certain Newspapers: and so on

In the Law of Scotland what is called Real Property in English Law is termed Heritable Rights, because the Right to them passes to the heir: and what is called Personal Property in English Law, is termed Movable Right in the Law of Scotland

So when the Socialists and Communists wish to destroy Property, as being robbery, it is not the material things which they wish to destroy, but the exclusive Rights which private persons have in them

On Right of Property *and* Right of Possesion

15. But though all Property is a Right, it must be carefully observed that all Rights are not property

There is an essential distinction between the mere Right of Possession and the Right of Property

Thus, where one person lends his horse or a book or a picture to another: or delivers goods to him as a common carrier to be conveyed from one place to another: or deposits goods or valuables with him as a warehouseman, for the mere purpose of being kept safely: or by way of pledge, hypothec, or lien: or hires a horse, or house, or furniture: or finds valuable goods: in all these cases

the person has the mere **Right of Possesion** of the goods: and he can bring an action against any one who deprives him of their possesion. But he has no right to use the goods in any way except in the way and for the specific purpose for which they are delivered to him. He has therefore only a particular Right to them: but not the absolute Ownership in them to deal with them in any way he pleases

The word **Property** means absolute, entire, and exclusive **Ownership**: it is the absolute Right to deal with the things in any way he pleases: except in so far as he may be restrained by Law

Property comprehends the *Jus possidendi*, or the Right of Possession; the *Jus utendi*, or the Right of using the thing in any way he pleases; the *Jus fruendi*, the Right of appropriating any fruit or profit from it: the *Jus abutendi*, the Right of alienating or destroying it; and the *Jus vindicandi*, or the Right of reclaiming it if found in the wrongful possession of any one else

The word Property or Dominion, then, does not mean a single Right: but an aggregate or bundle of Rights: it comprehends the Totality of Rights which can be exercised over anything

We shall find hereafter that some of the subtlest and most profound branches of Mercantile Law and Commerce are entirely based on the distinction between the **Right of Property** and the **Right of Possession**

On the Meaning of **Persona** *in Roman Law*

16. It will be very useful to understand clearly the meaning of **Persona** in Roman Law

The word *Persona* means any single Person, or any society of Persons, who can enjoy and exercise Rights. Thus in a Partnership each individual member is a *Persona:* and also the partnership itself is a *Persona* quite separate and distinct from its individual members. Hence each member of the partnership can buy or sell with the partnership as a separate individual

So a Joint Stock Company is a *Persona:* and when the individual members pay their money as Capital to the Company, the Property in it is gone from them and vests in the Company: and what they receive in exchange for their money is the **Right** to

share in the Profits made by the Company, in the proportion in which they have contributed Capital. These **Rights** are termed **Shares.** A shareholder in a Joint Stock Bank banks with the Bank as a separate person

So the State is a *Persona*, separate and distinct from its citizens : and private persons can lend money to the State, and receive in exchange for it the Right to demand a series of annual payments. These **Rights** in common language are termed the **Funds**

So every Municipal or other Incorporated body is also a *Persona*, and trades, or buys and sells, in that capacity, without reference to its individual members

The Parson of a parish is the *Persona* who has the Right to certain dues for performing religious services : and this Right is termed a Benefice

Thus a *Persona* may be defined to be a centre of Rights. Many individual persons may make up one *Persona :* and also a single individual may be several *Personæ*. Thus a man may be executor of one person : trustee of another : guardian of another : in each of these he is a separate *Persona*, or character, with a distinct set of Rights and Duties : and he may trade, or buy and sell, or exchange with himself in these separate *Personæ*, or characters. Hence all exchanges take place between separate *Personæ*

On the Meaning of **Res** *in Roman Law*

17. And as *Persona* means any body, single or corporate, which can enjoy and exercise Rights, so **Res** in Roman Law means anything whatever which can be the subject of a Right. Thus not only Material Things are *Res*, but also human actions or Labour. If I hire a workman to do any sort of Labour for me, I have the Right to have that Labour performed : and therefore that Labour or Service is a **Res**

So if I have the Right to demand a sum of money from any person at any given time that Right is a *Res :* so is the Right to share in the future profits of any enterprise

A Right to some specific material substance which has already come into possession is termed a *Res Corporalis* in Roman Law,

and Corporeal Property in English Law: a mere abstract Right to something which will only come into possession at some future time is termed *Res Incorporalis* in Roman Law, or Incorporeal Property in English Law

In recent times these Incorporeal Rights have attained an enormous magnitude, and increased at a much greater ratio than Corporeal Property. But as each of these different kinds of Right can be bought and sold or exchanged: or their *Value can be measured in Money:* they are equally classed under the terms *Pecunia, Bona, Res, Merx,* in Roman Law: under the terms οἶκος, χρήματα, πράγματα, πλοῦτος, περιουσία, ἀφορμή in Greek Law: under the terms "Goods," "Chattels," "Effects," "Substance," "Estate," "vendible or marketable Commodities" in English Law: and therefore under the term **Wealth** in Economics.

Commerce *or* **Economics** *is the* **Science** *which treats of the* **Exchanges** *of* **Rights**

18. Several eminent Jurists have observed that Jurisprudence is the science of Rights. Ortolan observes that Jurisprudence has nothing to do with the **Things** themselves, but only with the **Rights** to them. So says Lord Mackenzie—"Natural Philosophy considers things according to their physical properties, Law regards them as the objects of **Rights**"

And as Jurisprudence is the Science which treats exclusively about Rights, and not about Things: so Commerce or Economics is the Science which treats exclusively about the **Exchanges** of **Rights,** and not about the **Exchanges** of **Things**

And it is for this reason that mere abstract Rights, wholly separated from any material things, are the objects not only of Jurisprudence, but also of Commerce and Economics: because these abstract Rights can not only be infringed upon and damaged, but they can also be bought and sold, and are therefore articles of commerce: and the business of Banking, which is the subject matter of this work, consists chiefly in the sale, or commerce, of mere Rights of action

Hence we see that the true meaning of the word **Wealth** is

an **Exchangeable Right**: and that these three orders of Rights may be exchanged in **Six** different ways—

1. The Right or Property in a Material Thing may be exchanged against the Right or Property in another Material Thing

2. The Right or Property in a Material Thing may be exchanged against the Right to demand so much Labour or Service

3. The Right or Property in a Material Thing may be exchanged against the Right to have something paid or done at a future time

4. The Right to demand one kind of service may be exchanged against the Right to demand another kind of service

5. The Right to demand a certain amount of service may be exchanged against the Right to demand money

6. The Right to demand money may be exchanged against another Right to demand money

Thus it is seen that all Exchanges are the Exchanges of Rights against Rights: and these Six kinds of Exchanges of Rights constitute the Science of Commerce, or of **Pure Economics**

And of this general science, the business of Banking consists of the Exchanges numbered (3) and (6): for it consists in the Exchanges of the Right or Property in specific sums of money against the Right to demand Money: and of one Right to demand money against another Right to demand money

And it is the Exchange of these kinds of Rights which is the subject matter of this work

On the application of the **Positive** *and* **Negative** *Signs to* **Property**

19. Economic Quantities, or Economic Rights, are then of three distinct orders—

1. **Rights** or **Property** in some **material** substance which has already been acquired

2. **Rights** or **Property** in **Labour** or **Service**

3. **Rights** or **Property** in something which is only *to be* acquired at some *future* time

Now we observe that the first and third of these species of

Economic Rights are **Inverse,** or **Opposite,** to each other. Property like Janus has two faces placed back to back. It regards the **Past** and the **Future.** We may buy and sell a right to a thing which has actually come into possession, as well as the Right to a Thing that will only come into possession at a future time: Property therefore is of **Opposite** Qualities

Now in all mathematical and physical Sciences, it is invariably the custom to denote *similar* Quantities but of **Opposite** Qualities by **Opposite** Signs. Hence as a matter of simple convenience, and following the invariable custom in physical science, if we denote one of these kinds of Property as **Positive,** we may as a distinguishing mark denote the other as **Negative**

The important consequences that flow from this notation will be explained hereafter. We shall simply observe at present that if we choose to denote Property in a thing which *has been* acquired in time *past* as **Positive,** we may denote Property in a thing which *is to be* acquired in time *future* as **Negative**

Now Property in a thing which *has been* acquired is Corporeal Property: and Property in a thing which *is to be* acquired is Incorporeal Property. Hence, if we denote Corporeal Property by the Positive Sign, it is strictly in accordance with all Physical Philosophy to denote Incorporeal Property by the Negative Sign

And as in all Mathematical and Physical Sciences the whole Science comprehends both Positive and Negative Quantities: so that the whole Science of Economics comprehends both Positive Economic Quantities and Negative Economic Quantities: both Corporeal and Incorporeal Property. By this means we double the field of Economics as usually treated: and we do in Economics what those did in Mathematics and Natural Philosophy who introduced Negative Quantities. By these means we are enabled to obtain the solution of problems which all preceding Economists have given up in despair: and it is by this means only that the Theory of Credit and Banking can be explained

On the **Classification** *of* **Property**

20. We shall now show the practical convenience which arises from applying the Positive and Negative Signs to Property: and denoting the Right or Property in things which have already

come into existence as Positive, and the Right to things which are only to come into existence at a future time as Negative. For many species of Property are of a mixed nature: that is, the entire Property in them consists partly of Corporeal Quantities and partly of Incorporeal Quantities

Property in Land is the highest Property of all: and to understand the nature of Property in Land is the grammar of Property in general

Suppose that we purchase an Estate in Land for the sum of £100,000: where is the Value for our Money? Does it consist in things which are already in existence? The veriest tiro would answer—Certainly not. Where, then, is the equivalent for the purchase-money?

When we purchase an Estate in Land, we purchase the Right, or Property, not only in the existing products of the land and labour; such as the houses, the timber, the crops on the ground, but also the Right to receive its annual products for ever: that is, to a series of products which will only come into existence at definite intervals of time for ever. Thus we purchase not only the actually existing products of the land: but also its **Capacity** to produce future products to the end of time—say £3,000 a year for ever

Thus Property in Land may be conveniently denoted thus—

Existing products of Land (+) together with — £3,000, — £3,000, — £3,000 . . . . for ever

Where the Positive Sign denotes the products which have already come into existence; and the Negative Sign denotes the products which will only come into existence year by year for ever

But though the yearly products of the land will only come into existence at future intervals of time, the **Right** or **Property** to them when they do come into existence, is **Present**, and may be bought and sold like any material chattel, such as a table, a chair, or so much corn. That is to say, each of these annual products for ever has a **Present Value**: and the purchase-money of the Land is simply the Sum of the **Present Value** of this series of future products for ever

Again, although this series of future products is infinite, a

simple algebraical formula shews that it has a finite limit: and that finite limit depends chiefly on the current Rate of Interest. When the usual Rate of Interest is three per cent., the total Value of Land is about 33 times its annual value: consequently 32 parts out of 33 of the total Property in Land is Incorporeal: the remaining one part only being Corporeal

Now, when a purchaser has bought an Estate in Land, it may be said without any very great metaphor that it **owes** him a series of annual payments for ever: as he bought it merely in the belief or expectation that he would receive these products. Hence we may call this Right to receive the future products of the Land the **Credit** of the Land. And by the notation we have adopted, it is a Negative Economic Quantity

Many Banks in Central Europe have been founded for the purpose of making advances to cultivate land, on the principle of demanding an annual instalment of repayment out of the products of the Land. These are called Banks of *Credit Foncier*, or Banks of **Land Credit**

Personal Credit.—Now a man exercising any profitable business, or profession, is an Economic Quantity analogous to Land. He may have accumulated a quantity of money as the fruits of his *past* industry: but over and above his accumulated money, he possesses his Skill, his Abilities, his Character: in short, his **Capacity** to earn profits in the *future,* as he has already in the *past:* and of course he has the Property in the expected *future* profits of his industry

And he may trade in two ways: he may trade with the Money he has already acquired: or he may purchase goods by giving in exchange for them the **Right or Property** *to demand payment at a future time* out of his profits which are to be earned in future. Personal Character used in this way as a Purchasing Power is termed **Credit:** and as we have seen that **Anything** which has **Purchasing Power** is **Wealth:** it necessarily follows that **Money** and **Credit** are equally **Wealth**

This must suffice here to indicate the origin and nature of Credit, which will be more fully investigated in a future chapter

It is obvious that the other kinds of Incorporeal Property we

have mentioned, the Funds, Shares in Commercial Companies, the Goodwill of a business, Copyrights, Patents, &c., are all of the same nature as Credit: they are all Rights to *future* Profits or Payments

Every Sum of Money *is* Equivalent *to the* Sum *of the* Present Values *of an* Infinite Series *of* Future Payments

21. The explanation of the Theory of the Value of Land demonstrates a proposition of great importance in Economics

It was seen that the £100,000 given to purchase the Estate in Land expected to produce £3,000 a year for ever, was in reality to the Sum of the Rights to the future products for ever. Each annual Product has a **Present Value**: and the Value of the Land is simply the sum of these Present Values

But the same is evidently true of every Sum of Money whatever. Hence any Sum of Money is not only equal in value to a Quantity of Goods or Services, but also to a **Perpetual Annuity**: or the Right to receive an infinite series of future profits

Hence an **Annuity** or the **Right** to receive a series of future payments is also an Economic Quantity: and may be bought and sold like any other Economic Quantity. A sum of Money may be paid to buy an Annuity: and equally, an Annuity may be paid to buy a Sum of Money either paid down at once, or at some agreed upon future time

On the Distinction between Rights *to* Things, *or* Jura in Re *or* in Rem; *and* Rights *against* Persons, *or* Jura in Personam *or* ad Rem

22. We have now to notice a distinction between different kinds of Property, or Rights, of the greatest importance in Commerce

Property or Rights are of two sorts—

1. The Property or Right to a specific chattel termed in Law a **Jus in re**, or **in rem**, without being related to any one else: this Right is also called in Roman Law *Dominium*

When a person has such Property or such sole and exclusive Right in any chattel, he may sell or transfer it to any one else he pleases. Money, cattle, timber, and other goods are subject to this kind of Property. And hence the Proprietor may freely alienate or sell and transfer any of his own money, &c., to any one he pleases

2. Property or Rights held in Contract or Obligation, called in Roman Law a **Jus in Personam**, or **ad rem** (*acquirendam*) : when a Person has a Right, not to any specific thing, but only against a **Person**, to compel him to pay or do something

A simple example of this kind of Property, or Right, is the Contract, or Obligation, of Debt : where one Person, the Creditor, has only a Right to demand a sum of money from some other Person, the Debtor. In such a case the Creditor has no Right to any specific money in the Debtor's possession : but he has only a Right of action to compel the Debtor to pay him a sum of Money, or do something. And the Right of the Creditor exists against the Debtor whether the Debtor has any Money or not

The former kind of Rights are called Real or Corporeal Rights or Property, because they are always Rights to certain specific things : the latter are called **Personal Rights** or **Incorporeal Property**, because they are merely abstract Rights against a **Person** wholly severed from any specific chattel

But each of these classes of Rights may be bought and sold, or exchanged : the *Value* of each class *can be measured in Money :* and hence they are each equally *Pecunia*, *Res*, *Bona*, *Merx*, in Roman Law : χρήματα, πράγματα, οἶκος, in Greek Law : Goods and Chattels, or Vendible Commodities in English Law : and therefore **Wealth** in Economics

It must be observed that in Corporeal Property, the Right and the specific *corpus* cannot be separated : they cannot be bought and sold separately and independently of each other : they must always go together : and hence they form but **one** Property

But in Incorporeal Property, the mere Abstract Right is absolutely separated from any specific **corpus**. This class of Rights is bought and sold, or exchanged, separately : and therefore the whole mass of Incorporeal Property is itself independent

Exchangeable Property : just like so much money, or coals, or timber, or land, or houses, or jewelry, or cattle, or any other material chattels : and in fact in this commercial country the mass of Incorporeal Property of various kinds exceeds many times the mass of Corporeal Property

Definition of **Value**

23. Economic Quantities are, as we have seen, of Three distinct orders or species, any one of which may be exchanged against any one of the others

Now if at any time any Economic Quantity A, can be exchanged for any other Economic Quantity B, then each of these two Quantities is termed *the* **Value** of the other

Suppose that at any time one ounce of gold will exchange for 15 ounces of silver, then it is said that one ounce of gold is of the Value of 15 ounces of silver which is simply this equation—
1 oz. Gold = 15 ozs. Silver

Hence Value may be said to be the Sign of Equality between any two Economic Quantities

We have, then, this definition—

The Value *of any Economic Quantity is any* **other** *Economic Quantity for which it can be exchanged*

Hence any Economic Quantity has as many Values as other Quantities it can be exchanged for : and, of course, if it can be exchanged for nothing, it has no value

Value, therefore, by the definition, requires two objects : just in the same way as Distance and Ratio require two objects. A single object cannot have Value, any more than a single object can be Distant or Equal. If we are told that any object is Distant or Equal, we immediately ask Distant from what? or Equal to what? So if it is said that a Quantity has Value, we must ask—*Value in what?* And it is clear that as it is absurd to speak of a single object having Absolute or Intrinsic Distance or Equality, so it is equally absurd to speak of a Quantity having Absolute, or Intrinsic, Value

Hence, the student must observe that in Economics the word Wealth is merely a technical term for any Quantity that can be exchanged : and that the Theory of Value denotes the Laws of the relations of Exchangeable Quantities

This must suffice here for the Definition of Value: the Theory of Value will form the subject of the next chapter

On **Money** *and* **Credit**

24. Money and **Credit** are the only Economic Quantities with which Banking deals, and we must now explain their nature clearly

We have abundant evidence that in the early ages of the world there was no such thing as Money. When persons traded they exchanged the products directly with each other. Thus we have in Iliad, vii. 468—

> "From Lemnos' isle a numerous fleet had come
> Freighted with wine. . . . . .
> . . . . . All the other Greeks
> Hastened to purchase, some with brass, and some
> With gleaming iron: some with hides,
> Cattle and slaves

This exchange of products against products is termed **Barter**: and the inconveniences of this mode of trading are palpable. What haggling and bargaining it would require to determine how much leather should be given for how much wine! how many oxen or how many slaves! Some ingenious person would then discover that it would greatly facilitate traffic if the things to be exchanged could be referred to some common Measure of Value. There are several passages in the Iliad and Odyssey which shew that even while traffic had not advanced beyond barter, such a standard of reference was used. We find that various things were frequently estimated as being worth so many oxen. Thus, in Iliad ii. 448, Pallas's shield, the Ægis, had one hundred tassels, each of the value of one hundred oxen. In Iliad vi. 234, Homer laughs at the folly of Glaucus, who exchanged his golden armour, worth one hundred oxen, for the bronze armour of Diomede, worth nine oxen. In Iliad xxiii. 703, Achilles offers as a prize in the funeral games in honour of Patroclus, a large tripod, which the Greeks valued among themselves at twelve oxen: and to the loser a female slave, whom they valued at four oxen

But it must be observed that these oxen did not pass from

hand to hand like Money. The state of barter continued, as it is quite common at the present day to exchange goods according to their value in money, without any actual money being used. Such a state of things in no way implied the existence or use of money

25. The necessity for Money arises from a different cause. So long as the things exchanged were equal in value there would be no need for money. If it always happened that the exchanges of products or services were **Equal,** there would be an end of the transaction. But it would often happen that when one person required some product or service from some one else, that person would not require an equivalent amount of product or service from him, or, perhaps, even none at all. If, then, a transaction took place with such an **Unequal** result, there would remain a certain amount of product or service due from the one to the other : and this would constitute a **Debt**—that is to say, a Right, or Property, would be created in the person of the one who had received the less amount of service or product to demand the balance due at some future time : and at the same time there would be the corresponding **Duty** created in the person of the other who had received the greater amount to render the balance due when required

Now among all nations and persons who exchange, this result must inevitably happen : persons want something from others when those others want nothing, or not so much, from them. And it is easy to imagine the inconveniences which would arise if persons never could get anything they wanted, unless the persons who could supply those things wanted something in return at the same time

In process of time all nations hit upon this plan : they fixed upon some material substance which they agreed to make always exchangeable among themselves to represent the amount of **Debt**

That is, if an **Unequal** exchange takes place among persons, to leaving a balance due from one to another, the person who has received the greater amount of product or service gives a quantity of this Universally Exchangeable Merchandise to make up the balance : so that the person to whom the balance of product is due may get an equivalent from some one else

Suppose that a wine dealer wants bread from a baker : but the baker wants no wine, or not so much wine from the wine dealer

The wine dealer takes the bread from the baker, and gives him in exchange as much wine as he wants, and makes up the balance by giving him the amount of this generally Exchangeable Merchandise equivalent to the deficiency : or if the baker wants no wine at all, the wine dealer gives him the full equivalent of the bread in this Merchandise

The baker, perhaps, wants meat or shoes, but not wine. Having received the universally Exchangeable Merchandise from the wine dealer, he goes to the shoemaker, or butcher, and obtains from them the equivalent of the bread he sold to the wine dealer. Hence the satisfaction which was due to him from the wine dealer is paid by the butcher or shoemaker

26. This universally Exchangeable Merchandise is called **Money :** and these circumstances shew its fundamental nature. Its function is to represent the **Debts** which arise from **Unequal** exchanges among men : and to enable persons who have rendered services to others, and have received no equivalent from them, to obtain that equivalent or satisfaction from some one else

Many species of Merchandise have been used for this purpose : but however different in their form, this is the universal want they supplied : and the true nature of Money is to be a **Right** or **Title** to demand something to be paid or done by some one else

Now, when one person takes a piece of Money in exchange for products or services, he can neither eat it, nor drink it, nor can he clothe himself with it : it is of no absolute direct use in itself : its sole use is to be a **Right** or **Title** to demand something from some one else : and the person who receives it in exchange for products or services, only agrees to do so because he **Believes** that he can exchange it away again for something which he does want whenever he pleases. It is, therefore, what is termed **Credit**

Thus a London merchant, F. Cradocke, in the time of the Commonwealth, says—

" Having now pointed out the inconvenience of these metals (Gold and Silver) in which the medium of commerce or **Universal Credit** hath formerly been placed . . . . .

"Now, that such **Credit** is as good as **Money** will appear, if it be observed that **Money** itself is nothing else but a kind of **Security,** which men receive upon parting with their commodities, as a ground of **Hope** or **Assurance** that they shall be repaid in some other commodity: since no man would either sell or part with any for the best Money, but in hopes thereby to procure some other commodity or necessary"

So Edmund Burke speaks of Gold and Silver as—"The two great recognised species that represent the lasting conventional **Credit** of mankind." Hence we see the Fundamental Nature of Credit

Credit *is anything which is of no direct use in itself: but which is taken in exchange for something else, solely in the* **Belief** *or* **Confidence** *that we have the Right to exchange it away again for something else we do require*

Credit is, therefore, the **Right** or **Property** of demanding something to be paid or done by some **person.** It is the **Right** to a future payment: and it must be carefully observed that it is the **Name** of a certain species of **Right** or **Property**

Aristotle, *Bishop* **Berkeley,** *the* **Physiocrates, Smith, Thornton, Bastiat, Mill,** *and* **Jurists** *have seen the true Nature of Money*

27. The subject of Money and Credit is of such fundamental importance, and so much misconception has prevailed regarding it, that we must now show that a whole series of writers have seen the identical nature of Money and Credit

Thus Aristotle says—

"ὑπὲρ δὲ τῆς μελλούσης ἀλλαγῆς (εἰ νῦν μηδὲν δεῖται, ὅτι ἔσται ἐὰν δεηθῇ) τὸ Νόμισμα οἷον Ἐγγυητής ἐστιν ἡμῖν. δεῖ γὰρ τοῦτο φέροντι εἶναι λαβεῖν"

"*But with regard to a future exchange (if we want nothing at present, that it may take place when we do want something)* **Money** *is, as it were, our* **Security.** *For it is necessary that he who brings it should be able to get what he wants*"

So an old pamphleteer, in 1710, saw the same truth. He says,

"Trade found itself unsufferably straightened and perplexed for want of a general specie of a complete intrinsic worth as the medium to supply the defect of exchanging, and to *make good the balance*, where a nation or a market or a merchant demands of another a greater quantity of goods than either the buyer hath goods to answer, or the seller hath occasion to take back"

So the great metaphysician, Bishop Berkeley, says in his *Querist*—

21. Whether other things being given, as climate, soil, &c., the wealth be not proportioned to industry, and this to the Circulation of **Credit**, be the **Credit** circulated by what **Tokens** or **Marks** whatever?

24. Whether the true idea of **Money**, as such, be not altogether that of a **Ticket** or **Counter**?

25. Whether the terms crown, livre, pound sterling, are not to be considered as exponents or demonstrations: and whether **Gold, Silver,** and **Paper** are not **Tickets,** or **Counters,** for reckoning, recording, and transferring such denominations?

35. Whether **Power** to command the Industry of others be not real **Wealth**? And whether **Money** be not in truth **Tickets,** or **Tokens,** for recording and conveying such **Power**: and whether it be of consequence what material the **Tickets** are made of?

426. Whether all circulation be not alike a circulation of **Credit** whatsoever medium—**Metal** or **Paper**—is employed: and whether **Gold** be any more than **Credit** for so much Power?

So also Queries 441, 449, 450, 459, 475, and many others

It is one of the special merits of the Physiocrates that they clearly saw the true nature of Money. Among many others, Baudeau, one of the most eminent of them, says—

"This coined **Money** in circulation is nothing, as I have said elsewhere, but effective **Titles** on the general mass of useful and agreeable enjoyments, which cause the well-being and propagation of the human race"

"It is a kind of **Bill of Exchange,** or **Order,** payable at the will of the bearer"

"Instead of taking his share in kind of all matters of subsistence, and all raw produce annually growing, the sovereign demands it in Money, the effective **Titles,** the **Order,** the **Bill of Exchange,** &c."

So Smith says—"A **Guinea** may be considered as a **Bill** for a certain quantity of necessaries and conveniences upon all the tradesmen in the neighbourhood"

So Henry Thornton, the eminent banker, says—"**Money** of every kind is an **Order** for goods. It is so considered by the labourer when he receives it: and it is almost instantly turned into money's worth. It is merely the **Instrument** by which the purchaseable stock of the country is distributed with convenience and advantage among the several members of the community"

This great fundamental truth was also very clearly seen by Bastiat—

"This is now the time to analyse the true functions of Money, leaving out of consideration the miners and importation

"You have a Crown piece. What does it mean in your hands? It is, as it were, the witness, and the proof that you have at some time done some work, which, instead of profiting by, you have allowed society to enjoy in the person of your client. This Crown piece witnesses that you have rendered a service to society, and. moreover, it states the Value of it. It witnesses, besides, that you have not received back from society a real equivalent service as was your **Right.** To put it in your power to exercise the **Right** when and how you please, society, by the hands of your client, has given you an Acknowledgment or **Title,** an **Order** of the **State,** a **Token,** a **Crown piece**, in short, which does not differ from other **Titles** of **Credit,** except that it carries its Value in itself (?), and if you read with the eye of the mind the inscription it bears, you will distinctly see these words: 'Pay to the bearer a service equivalent to that which he has rendered to society, Value received, stated, proved, and measured by that which is on me'"

"After that you cede your Crown piece to me. Either it is a

present, or it is in exchange for something else. If you give it me as the price of a service, see what follows : your account as regards the real satisfaction with society is satisfied, balanced, closed. You rendered it a service in exchange for a Crown piece : you now restore it, the Crown piece, in exchange for a service : so far as regards you the account is settled. But I am now just in the position you were before. It is I now who have done a service to society in your person. It is I who have become its **Creditor** for the value of the work which I have done for you, and which I could devote to myself. It is into my hands, therefore, that this **Title of Credit** should pass, the witness and the proof of this social **Debt.** You cannot say that I am richer, because if I have to receive something, it is because I have given something "

" It is enough for a man to have rendered services, and so to have the **Right** to draw upon society, by the means of exchange, for equivalent services. That which I call the means of exchange is **Money, Bills of Exchange, Bank Notes,** and also Bankers. Whoever has rendered a service, and has not received an equal satisfaction, is the bearer of a **Warrant,** either possessed of Value such as Money (?), or of **Credit** like Bank Notes, which gives him the **Right** to draw from society, when he likes and where he likes, and under what form he will, an equivalent service "

So Mill says—" The **Pounds** or **Shillings** which a person receives weekly or yearly are not what constitutes his income : they are a sort of **Ticket** or **Order,** which he can present for payment at any shop he pleases, and which entitles him to receive a certain value of any commodity that he makes choice of. The farmer pays his labourers and his landlord in these **Tickets,** as the most convenient plan for himself and them "

It is so clearly understood that Money is in reality nothing more than the **Right** to demand something to be paid or done, that many Jurists expressly class it under the Title of Incorporeal Property

Thus Vulteius says—

" Nummus in quo non Materia ipsa, sed Valor attenditur "

" *Money in which not the* **Material** *but the* **Value** *is regarded*"

That is, we desire or demand other things for the direct satisfaction they give us; but we only desire Money for the other things it will purchase

Gold and **Silver Money** may, therefore, be justly termed **Metallic Credit**

Though the fundamental nature of Money is that it is a mere **Right** of demanding something, yet the Quantity of Matter, or Stuff, which is required to represent any amount of **Debt**, or as the equivalent of any commodity against which it is exchanged, will entirely depend upon the general laws of Value

Different Substances *used as* Money

28. Thus it is seen that writers of all classes, Philosophers, Economists, Merchants, Bankers, and Jurists are perfectly agreed upon the fundamental Nature of Money. It represents **Indebtedness**: or services due: it represents the **Rights** which its holders have to demand some product or service in recompense for some service they have done to some one else

A great many different substances have been used by different nations to represent this universal want. The Hebrews, we know, used Silver: although no money was in use in the times of the Homeric poems, copper bars or skewers were sometime afterwards used as Money in Greece. The Æthiopians used carved pebbles: the Carthaginians used leather discs with some mysterious substance sewn up in them. Throughout the ilands of the Eastern ocean, and many parts of Africa, shells are still used. In Thibet, and some parts of China, little blocks of compressed tea are used as money. In the last century dried cod was used in Newfoundland; sugar in the West Indies; and tobacco in Virginia. Smith says, that in his day nails were used as money in a village in Scotland. In some of the American colonies powder and shot: in Campeachy, logwood: and among the North American Indians belts of wampum were used as money. We read of another people who used cowries for small change, and the skulls of their enemies for large sums. It is said that, in 1867, the proprietors in Virginia were reduced to such straits as to use dried squirrel skins as money: and, in other countries, many other things have been used for the same purpose

But when we consider the purposes for which Money is intended, it is easily seen that no substance possesses so many advantages as **Metal.** The use of Money being to preserve the record of services due to the owner of it for any future time, it is clear that Money should not be liable to alter by time. A money of dried cod would not be likely to keep very long, nor would it be very easily divisible. Not many bankers would like to keep their accounts in dried cod, or tobacco, or logwood, or sugar, or powder and shot, or dead men's skulls. One of the very first requisites of Money is that it should be easily divisible into very small fragments; so that its owner should be able to get any amount of service he pleases at any time. Taking these requisites into consideration, it is manifest that there is no substance which combines these qualifications so well as a **Metal.** It is uniform in its texture: it can be divided into any number of fragments, each of which shall be of equal value to another fragment of equal weight: and, if required, these fragments can always be re-united, and form a whole again of the aggregate Value of all its parts: which can be said of no other substance. All civilised nations, therefore, have agreed to adopt a **Metal** as Money; and of Metals, Gold, Silver, and Copper have been chiefly preferred

On **Credit**

29. So long as nations continue in a low state of civilisation all the Credit or Money is made of some material substance. But when they advance in civilisation they use Credit of another form.

To revert to the case from which we shewed that the necessity of Money originated that of an **Unequal** exchange: suppose that instead of the general merchandise called Money, the Debtor gives the Creditor a simple **Promise** to render the balance of service due when required. Then the Creditor has the **Right** to demand an equivalent at a future time. But that **Promise** is only a Right against a *particular* person. Suppose that a person holds a tea merchant's Promise to give five pounds of tea. If the person wants tea, and the tea merchant is able to give the tea, such a promise is exactly equivalent to so much Money

Now that Promise is only the Right to demand a *particular* thing from a *particular* person. And that person may die, or

become insolvent, and unable to fulfil his Promise. The tea is the Value of the Promise: and to any one who wants tea, the Promise is of exactly the same Value as Money. So if any one wants any particular thing, an **Order** for that thing is of exactly the same Value as **Money** with regard to that particular thing. If a person wants a shilling's worth of bread, an **Order** for that amount of bread is of exactly the same Value as a shilling with regard to bread; if a person wants a shilling's worth of milk, an **Order** for that amount of milk is of the same Value as a shilling with regard to milk: and so on with regard to everything else in succession. The only difference is that each of these Orders entitles the owner to get only one particular thing: whereas with a shilling he can buy a shilling's worth of bread: or of milk: or of wine: or of tea: or of anything else he pleases. Hence, each of these Orders has got only *one* Value: whereas Money has a multitude of Values. Again, if the person who has made the Promise cannot fulfil it, the Promise has lost its Value. But if a person has Money he can always find some person to give him the equivalent he wants for it. Hence, such an Order has only **particular** and **precarious** Value: but Money has **general** and **permanent** Value

This **Order**, or **Promise**, or **Right** is what is usually called **Credit**: and it is clearly seen that though it is of a lower and inferior form, it is yet of the same general nature as Money. And as, in Economics, we are in no way concerned with the materials of things: and since these Rights or Orders may be exchanged, or bought and sold, equally as well as any material Chattels; they are termed *Pecunia*, *Res*, *Bona*, *Merx* in Roman Law: χρήματα, ἀγαθὰ, πράγματα, πλοῦτος, οὐσία, οἶκος in Greek Law: goods and chattels and vendible commodities in English Law: and therefore **Wealth** in Economics

Credit in this country is usually in the form of an Order or Promise to pay Money, such as Bank Notes, Bills of Exchange, Cheques, &c.: but we have shown that Credit in general is an Order to Pay or **Do** something: and a Promise or Order to Do some service is equally **Credit**, as an Order or Promise to pay Money

Thus a Postage Stamp is an Order or Promise to carry a letter, and is a form of **Credit**

So, when we buy a Railway Ticket we buy a Right to be carried a certain distance by Rail: hence, a Railway Ticket is **Credit**

So Opera Tickets, and all Tickets to see any dramatic or other performances, are Orders or Promises to see these things, and are all forms of **Credit**

In this country Mercantile Credit almost invariably consists in Orders or Promises to pay money: but it is quite usual in the south of Europe to negotiate Orders or Promises to pay in the products of the earth.

From this it is seen that it is perfectly possible to carry on the exchanges of society without material money. During the late civil war in America, gold and silver money entirely disappeared from circulation: and private Tickets of the nature described above took its place. Instead of Metallic Money, people had their pockets filled with bread tickets, milk tickets, railroad tickets, and many others. If a man had his hair cut and tendered a dollar in payment, he could not get change in money: but he received so many **Tickets** promising to cut his hair so many times. In one case we saw in an American paper, payment was made in tickets promising to pay strawberries when the season came on

The whole of the preceding considerations may be summed up in a very simple form. When persons have sold products or done services to other persons, they are entitled to receive either an equivalent product or service at the same time, or the **Right** to demand an equivalent at some future time. Now this **Right** may be in two forms: either that of **Metallic Money,** which is a General Right to demand any equivalent from the whole mercantile community: or a **Right** to demand an equivalent from the particular person who has received the product or service. This latter species of **Right** is what is usually termed a **Credit.** Hence, in either case, the Creditor is entitled to receive a **Right:** the only difference is, that in one case the Right is *general* and *permanent*, and in the other it is *particular* and *precarious*. But, for all that, they are clearly of the same nature. It is, therefore, seen that Money and Credit are homogeneous

quantities : and that **Money** is only the highest and most general form of **Credit**

We now see the advantage of forming clear and distinct fundamental concepts. We have seen that the only true technical definition of Wealth in Economics is that it is an **Exchangeable Right.** Now, as these **Orders,** or **Credits**, such as Bank Notes, Bills of Exchange, are all **Exchangeable Rights,** it follows that they are **Wealth** by the very definition. They can neither be handled nor seen in the form of Abstract Rights : but they can be bought and sold, or exchanged, even in that form, with the most perfect facility : but they can be recorded on Paper, and then they can be transferred by manual delivery, just like any other material Chattels. The whole mass of these Rights form a vast mass of Property : and are Wealth, for exactly the same reason that Gold is : they affect Prices exactly like an equal mass of Gold : and they are the subject of the most colossal commerce of modern times

Reason why **Paper** *can supersede* **Metallic Money**

30. The reason why Paper can supersede Metallic Money is now clear. An Order to receive a coat could never serve as a substitute for a coat, because it cannot serve the same purpose : an Order to receive bread may be bought and sold, but it cannot supersede bread, because it cannot serve as food : and so on in other cases. An order for such things can never serve as a substitute for the things themselves, because they are heterogeneous quantities. But an Order to pay Money can serve as a substitute for Money, because they are homogeneous quantities. A piece of Money is of no more direct use for eating, or drinking, or clothing than a piece of Paper : consequently, the exchange of Paper for Money is nothing more than the exchange of a Particular Right for a General Right. As Daniel Webster, the eminent American Jurist, said—" Credit is to Money what Money is to Goods " : that is, Credit is an Order to pay Money, and Money is an Order to pay Goods. To be useful, Money must be exchanged away just as Paper is. Hence, if Paper can be exchanged for exactly the same things that Gold can, Paper has the same Value as Gold.

As the Italians say, *che oro vale oro è:* that which is of the Value of Gold is Gold

On the **Distinction** *between* **Money** *and* **Credit**

31. Money and Credit, then, are both of the same nature: they are each a Right or Title to demand something to be paid or done by some one else

Now, no one can compel another person to sell him anything in exchange for Money or Credit: when, therefore, a person has voluntarily exchanged anything for Money, it is in reality only Credit; because he only takes it because he thinks that he can exchange it away again

But suppose that a Sale, or Exchange, has taken place, and that a Debt has been incurred thereby, public policy requires that the Debtor should be able to compel the Creditor to accept something in discharge of his Debt. It would cause infinite misery if Creditors might arbitrarily refuse the offer of payment of their Debts. Hence, in all countries, the Law declares that if a Debt has been incurred, the Debtor can compel the Creditor to receive something in payment of it

Whatever that Something is which the Debtor can *compel* his Creditor to receive in payment of a Debt is termed **Money**, or **Legal Tender**

From this it follows that some things may be money in some cases, and not in others

Gold Coin is Money, or Legal Tender, in all cases and to any amount

Silver Coin is only Money to the amount of 40*s.* If a Creditor chooses to receive it in payment of a Debt of a larger amount than 40*s.*, it is entirely of his own free will

In England, as between the public and the Bank of England, Bank Notes are nothing but Credit. The Bank cannot compel any one to receive its Notes: and any holder of its Notes can compel it to cash them on demand. Between private persons, a Bank Note for £5 is not Legal Tender, or money, for that exact amount of Debt. But, for all Debts above £5, Bank Notes are Money or Legal Tender. But even this is only so long as the Bank pays its Notes in cash on demand. If it were to stop payment, its Notes would cease to be Legal Tender in any case.

Also in Scotland and Ireland Bank of England Notes are not Legal Tender in any case

If two persons are mutually indebted in equal amounts, each may compel the other to receive the Debt he owes, in payment of the Debt which is due to him. Each Debt is, therefore, Money or Legal Tender with respect to the other

On **Barter, Sale** *or* **Circulation,** *and* **Exchange**

32. When material commodities are exchanged directly for one another, the transaction is termed **Barter**

When Commodities are exchanged for Money or Credit, that Money or Credit is only taken that it may be exchanged away again. Hence, the early Economists called a transaction in which Money, or Credit, is used, *half-an-exchange*. It is also called a **Sale** or **Circulation.** A Sale, or Circulation, always denotes a transaction in which one or both of the Quantities exchanged is **Money** or **Credit**

The sum total of these Sales is properly termed the **Circulation.** Hence a single piece of Money may add considerably to the Circulation : because every time it is transferred it is a Sale : and therefore it augments the Circulation

The word Circulation is sometimes used in a very corrupt sense, which must be carefully avoided ; namely, as the quantity of Money and Bank Notes in circulation, especially the latter. Of all the terms in common use this is one of the most objectionable. To call the Notes in Circulation the Circulation is as great a confusion of ideas as to call a wheel which rotates, a Rotation. We shall, accordingly, never use the word Circulation to mean the amount of the Notes of a Bank : the correct expression evidently is to say the *Notes in circulation*

As the use of Money and Credit is to set industry in motion : and inasmuch as they have no use unless they do that : their beneficial effects are not to be measured by their actual amount, but by the Quantity of industry which they generate. Money lying up in a box, or Credit unused, only represents latent Power, and not actual Power. They may be called Power or Wealth in

the latent state : they resemble the Steam Engine of a mill which is not going : and which is of no use unless it is set in motion. And as the produce of the mill is measured by the Quantity of Motion of the engine : so is the useful effect of Money and Credit measured by their Quantity of Motion : which we have called the **Circulation.** The Circulation which is the sole test of their useful effect is, therefore, the product of their amount multiplied into the velocity of their Circulation. Engineers usually call the Quantity of Motion of the engine its **Duty :** so we may call the Circulation the **Duty** of Money and Credit

It is so essential to have a clear conception of the useful effect produced by any given amount of Money or Credit, that we may add another illustration. The effect produced by any body in motion is determined by the Weight or Mass multiplied by its Velocity ; which is called the **Momentum.** If the mass be diminished, yet by increasing the Velocity, the **Effect** or **Momentum** may still be the same. If a body weighing 100 lbs. move with a velocity 1, its momentum will be 100 : but if we diminish the weight to 50 lbs., and can double its Velocity, the Effect or Momentum will still be the same. The effects of Money and Credit are exactly analagous. Their useful effect is the result of their combined amount and velocity of circulation : which we have called the **Circulation.** If we can make £50 circulate with twice the velocity that £100 does, the useful effect, or Circulation, will be exactly the same. Hence we may say that the Circulation is the **Momentum** of Money and Credit

An **Exchange** is always the interchange of things of a like nature : either commodities for commodities : or Money or Credit for Money or Credit

Thus we speak of the Foreign Exchanges, or the Value of the Money of one country in terms of the Money of another. Or we ask for the change (*i.e.*, the 'change or the exchange) of a £5 note or sovereign : so we speak of exchanging one book for another ; or a picture for a statue

So, in *Lear*, when Albany throws down his glove to the traitor Edmund, the latter, throwing down his own, says, " There's my exchange," meaning like for like. And a little further on in the scene, Edgar says to Edmund, " Let's exchange charity "

So, in *Hamlet*, Laertes says—"Exchange forgiveness with me, noble Hamlet."

When the interchange is between commodities and Money or Credit, the one who gives Money or Credit is said to **Buy** the commodity: and the one who gives the commodity is said to **Sell** it

Thus we Buy a horse, or a house, or land, or cattle, or corn with Money. An officer formerly *bought* a commission in the army: but he exchanged from one regiment into another

On the Meaning of **Circulating Medium**

33. The term **Circulating Medium** does not occur in Smith. The first instance, that we are aware of, of its use is in a speech of Fox's, in 1797, in which he complains that it was a novel term, whose meaning was not very well settled

The verb **Circulate**, like several others in English, has both an active and and a neuter sense

1. It means that which Circulates commodities, *i.e.*, which causes commodities to circulate: where it is an active verb

2. That which Circulates itself: where Circulates is a neuter verb

Smith uses the word Circulate in both senses in different places. Thus he says—"Their (gold and silver) use consists in Circulating commodities"

"The great wheel of Circulation is altogether different from the goods circulated by means of it. The revenue of the society consists altogether in these goods, and not in the wheel which *Circulates* them"

A little further on he speaks of the different sorts of paper money, but he says that the Circulating Notes of banks and bankers are the species best known—where Circulate is neuter

In the following sentence both senses occur: "Let us suppose for example that the whole *Circulating* money of some particular country amounted at a particular time to one million sterling, that sum being then sufficient for *Circulating* the whole annual products of their Land and Labour"

The ordinary meaning of words in scientific language leaves no possible doubt as to which of the two senses of Circulate is the

true one in the expression "Circulating Medium." A Medium in scientific language means some middle thing by which something else is done. The Circulating Medium is the Medium by which Circulation is effected. We have already defined Circulation to be the exchange of commodities for Money or Credit. Consequently the Circulating Medium must include Money and Credit in all its forms. Hence the total amount of the Circulating Medium must be simply the total amount of Money and Credit in all its forms

On the Meaning of **Currency**

34. All writers use the term **Currency** as absolutely synonymous with Circulating Medium: if, therefore, we can positively decide the meaning of one of these terms, that will necessarily also determine the meaning of the other. It has been seen that the meaning of the term Circulating Medium is perfectly clear; and this must also determine the meaning of **Currency**

But the scientific meaning of the word Currency itself is not so evident, and it has given rise to protracted controversies in modern times. We shall not discuss these controversies here; we shall simply explain the true meaning of the word: and reserve all controversy for a future occasion. It is in fact a technical term of Mercantile and Constitutional Law

The following is the true meaning of **Current** and **Currency** in English Law

It is a general rule of Law that a person cannot transmit to another any better Title to a thing than he has himself. It is also a general rule of Law that if a person has accidentally lost a thing, or has it stolen from him, he does not thereby lose his Property, or Right in it. Consequently he can not only recover it from the thief or finder himself, but also from any one else to whom the thief or finder may have sold it: even though the purchaser paid the full price for it to the thief or finder, and bought it honestly and without the knowledge that it was not the Property of the seller

By the Common Law of England, if the thief or finder manages to sell the goods in market overt, the purchaser acquires a valid title to them against the true owner. Thus in *Every Man in his Humour*, when Down-right claims his cloak, Stephen mendaciously says—

"Your cloak, Sir! I bought it even now in open market"

But to this rule of Law, Money was always an exception. If the true owner of the Money finds it in the possesion of the thief he can reclaim it, but if the thief or finder has purchased goods in a shop with it, and the shopkeeper takes the money honestly in the way of business, and without knowing that it has been stolen, he may retain it against the true owner, from whom it has been stolen, even if he can identify it. That is, the *Property in Money passes by Delivery*

It is this peculiarity in the law affecting the property in Money which passes by Delivery, which is denoted by the words **Current** and **Currency** in English Law

And when the representatives and substitutes for Money, such as Bank Notes, Bills of Exchange, Cheques, &c., came into use, the *Lex Mercatoria*, or Custom of Merchants, applied the same doctrine or principle of Currency to them. They were treated like Money in so far as this, that the Property in them passes like the Property in Money. Thus, if they are lost or stolen, the true owner may recover them so long as he finds them in the possession of the thief or finder. But if the thief or finder passes them away for value in the ordinary course of business to an innocent holder, that innocent holder acquires the Property in them, and may retain them against the true owner and enforce payment of them from all the parties liable

It is thus seen that in strict Law this principle of Currency can only be applied to those Rights which are recorded on some material. An abstract Right cannot be lost or stolen, mislaid, and passed away in commerce. For a Right to be Currency in strict Law, it must be recorded on some material so as to be capable of being carried in the hand: or in a man's pocket: or put away in a drawer: or dropped in the street: or stolen from the drawer or from a man's pocket, and carried off by the finder or thief, and sold like a piece of goods

So far, then, as regards Law, there is no difficulty: the meaning of the word is perfectly plain. But if the word Currency is used to denote a certain class of Economic Quantities, synonymous with Circulating Medium, a difficulty arises: because there is an immense mass of Credit which has produced exchanges, and has circulated commodities, and is therefore Circulating Medium,

which is not recorded on any material at all, in such a way that it can be lost, or stolen, and passed away by manual delivery

Thus the gigantic mass of Bank Credits and Book Debts of traders have all effected a Sale, or Circulation: and therefore they are all Circulating Medium: but they are not Currency in a legal sense: because they cannot be mislaid or lost, or stolen, and passed away by manual delivery. So, also, private Debts between individuals termed Verbal Credits: they only arise out of the Transfer of Money, or Commodities: and they exist equally whether they are recorded on any material substance or not. They are equally Circulating Medium. The private debts among traders affect prices exactly like so much Money. Consequently, though they are not Currency in strict Law, they must all be included under that term when used in a scientific sense in Economics, synonymous with Circulating Medium: because these Rights of action are exactly the same in their nature and effects whether they are recorded on paper or not

This truth was well expressed by the Marquis of Tichfield in the House of Commons, in speaking of the various forms of Credit used as substitutes for Money—"When it was considered to how great an extent these contrivances had been practised in the various **modes** of **Verbal, Book,** and **Circulating Credits,** it was easy to see that the country had received a great addition to its **Currency.** This addition to the **Currency** would have the same effect as if Gold had been increased from the mines"

The different **Forms** *of* **Currency**

35. Adopting, then, this Definition of Currency, or Circulating Medium, we may enumerate its different forms or species as follows—

1. **Coined Money:** Gold, Silver, or Copper
2. The **Paper Currency:** Bank Notes, Bills of Exchange and Promissory Notes, in all their Varieties
3. **Simple Debts** of all sorts: not recorded on Circulating Paper; such as Credits in bankers' books termed Deposits: Book Debts of Traders: and private Debts between individuals

It is obvious that there is no distinction in principle between

these two latter species. They each denote that a transaction of some sort has taken place, and are a Title to future payment. As a matter of convenience some of them are recorded on paper : but that does not alter their nature. It is certainly true that some of these descriptions of Currency are more eligible and secure than others : and perform their duties with different degrees of advantage. The Metallic Currency rests upon the good faith of the State that it is the proper weight and fineness, and the universal readiness of the people to receive it in exchange for products and services. Paper Currency, in this country at least, rests upon private Credit : and is of all degrees of security from a Bank of England Note down to a private I O U. These different forms of Currency, therefore, though they may possess different degrees of Circulating Power, though they may be more or less eligible or secure, represent but one Fundamental Idea—**Debt.** From these considerations it follows that the amount of Currency or Circulating Medium, in any country, is the *sum total of all the Debts due to every individual in it*—that is, all the Money and Credit in it

Postage Stamps must also be included under the term Currency. Though the point has not been decided in the Courts of Law, there can be no doubt that Postage Stamps possess the attribute of Currency. They are a most usual form of remittance : they pass in small payments : and since the Law has ordered that the Post Office should cash them, they are in reality One Penny Notes. And if any one were to steal Postage Stamps, and pass them away, and if they were taken honestly in payment, there can be no doubt that the same principle of Currency would apply to them as to Bank Notes, Bills, and Cheques : hence they are strictly Currency

On the **Channel** *of* **Circulation**

36. When unequal exchanges take place of commodities or services, it has been shewn that Money and Credit represent the balances which arise from these unequal exchanges. The total of these balances is the **Circulation;** and in monetary discussions the amount of these balances is sometimes called the **Channel of Circulation**

This Channel of Circulation is filled with some material : and Prices are estimated in pieces of this material

The Quantity of the material which represents any given amount of Debt, and is equivalent to any amount of commodities or services, is determined by the general Laws of Value, and need not be adverted to here

Let us first suppose that Gold is used at any time to represent Debt, and to fill the Channel of Circulation. This Gold metal is divided into certain pieces of fixed quantity and weight, termed Coins : and Prices are estimated in these Coins

But suppose that at any time Gold was suddenly discontinued as the representative of Debt, and Silver substituted for it : and suppose that pieces of Silver were coined of exactly the same weight as the previous Gold pieces, and substituted for them as the representative of Debt

Then, as Silver is about fifteen times less valuable than Gold, it is clear that it would require fifteen times as many pieces in Silver to represent any amount of Debt as it would Gold pieces : and Prices would rise fifteen-fold : but other commodities would still preserve the same relations among themselves. Hence, though Prices would rise, yet the Values of commodities with respect to each other would remain exactly the same

Again, suppose that Silver was taken away as the representative of Debt, and Copper substituted : and Copper coins struck of the same weight as the previous Gold and Silver ones, and called by the same name. Then prices would be estimated in Copper : and as Copper is about 900 times less valuable than Gold, Prices estimated in Copper would rise to about 900 times the amount in Gold : the relative Values of all other commodities remaining the same

Now, as the Value of Gold in representing Debt depends upon the Quantity of the Gold which represents any amount of Debt, it would manifestly follow that if the Quantity of Gold were suddenly increased which represented any amount of Debt, the Value of Gold would greatly diminish. And if Gold became as plentiful as Silver, it would have no more Value than Silver : and consequently, even while the weight of the coins and their quality remained the same, Gold would fall to the fifteenth part of its former Value as a Purchasing Power

So, also, if Gold were to become as plentiful as Copper, while it still represented the same amount of Debt, it would be of no more Value as Purchasing Power than Copper: that is, it would fall to about the 900th part of its former Value

Thus, in a general way, if a certain Quantity of Stuff of any sort is used to represent any Quantity of Debt at any time, and if the Quantity of Stuff is greatly increased while the Quantity of Debt remains the same, it necessarily produces a great diminution in the Value of the Stuff: and a general rise of Prices

But the Quantity of Stuff which represents Debts, and fills the Channel of Circulation, need not be all of the same material. It may be partly Gold, partly Silver, and partly Copper: and Prices will be estimated by the whole Quantity of Stuff which fills the Channel of Circulation: and not by any particular portion of it

In modern times a new kind of Stuff has been employed to a gigantic extent to fill the Channel of Circulation: and that is **Credit,** or simple **Rights of action** in different forms

Thus the whole Quantity of Stuff which fills the Channel of Circulation is composed of Gold, Silver, Copper, and **Credit:** and the Prices of commodities are estimated according to the aggregate of all these different kinds of Stuff: and not according to any single one. Hence the creation and use of **Credit** in modern times produces exactly the same effects, and acts upon Prices exactly in the same way as an equal Quantity of Gold. And this to an extent which is very imperfectly appreciated and understood. It will be shewn hereafter that in this country the Quantity of Credit which is used in commerce may be approximately estimated at about fifty times the quantity of metallic coin. Hence the thorough comprehension of the principles and mechanism of the great System of Credit is the very foundation of all modern Economics: and it is the excessive creation of Credit which produces more changes in the Prices of commodities at the present time than any other causes whatever

The **Fundamental Concept** *of* **Monetary Science**

37. The preceding considerations now enable us to perceive the Fundamental Concept of Monetary Science

We have seen that writers of all classes are agreed as to the fundamental Nature of Money. It represents **Debts** which are due to persons who have done services to others, and have received no equivalent service in return. It is merely the Right to demand these equivalent services when they please: and its special function is to measure, record, and preserve for future use these Rights

If all the services exchanged in society exactly balanced there would be no need for Money

Supposing, then, that there was nothing but Metallic Money in use, the following axiom is evident—

"*The* **Quantity** *of* **Money** *in any country represents the* **Quantity** *of* **Debt** *that there would be, if there were no* **Money**"

But, as we have seen, that in modern civilised countries these Debts or Rights are recorded in the simple abstract form of Rights against particular persons, as well as in Metallic Coin, which are Rights against the general community, the term **Currency** includes these **Debts** or **Rights** in both forms

Hence it is clear that the **Currency** represents nothing but **Transferable Debt,** and that whatever represents **Transferable Debt** is Currency, whatever its nature or form may be

Consequently, the proposition necessarily follows—

"*Where there is no* **Debt** *there can be no* **Currency**"

We shall see hereafter that all erroneous Theories of Currency have been founded on not perceiving the fundamental nature of Currency: and the greatest monetary disasters the world has ever seen have been produced by violating these fundamental axioms

On **Securities for Money** *and* **Convertible Securities**

38. We must now explain the distinction between **Securities for Money** and **Convertible Securities**

A **Security for Money** always means a Security, or Obligation, for the Payment of a definite sum of Money by a definite person at a definite time. There is, therefore, always some **Person** who is bound to pay it. There are different forms

of such Securities, such as Bank Notes, Bills of Exchange, Navy Bills, Exchequer Bills, and Debts of all sorts

Convertible Securites are Securities which no particular person is bound to pay: but for which under usual circumstances, a purchaser can readily be found in the open market. A Convertible Security means any Property which can readily be sold. This species of Property includes the Funds, Shares in Commercial Companies, all Title Deeds to Goods of a moveable description, such as Bills of Lading, Dock Warrants, &c. As Convertible Securities means Property which can be readily converted into Money, there are of course all degrees of convertibility

There is no absolute distinction in principle between the different species of Property. But of all species of Property the Funds are the most readily convertible: and the Land, or Real Property, is the least readily convertible: mainly in consequence of the difficulty and expense of its transfer

Thus, Securities for Money are always Rights against a person, or *Jura in personam*, and are never Rights to specific things or *Jura in re*. Convertible Securities are never Rights against persons: and certain kinds of them are always Titles to specific goods

Sometimes a Security for money may be changed into a Convertible Security. This is done in what is called *Funding the Unfunded Debt*. The Government, like private individuals, often raises Money on its Bills, and is, of course, bound to pay them at maturity. These Exchequer Bills, as they are called, are like any other Bills, Securities for Money. Sometimes when these Bills, called Floating Debt, amount to a large sum, it is not convenient for Government to pay them off: and it gets its Creditors to agree not to demand repayment of the whole debt, but only to receive interest on it in perpetuity. When this is done the Creditor loses the Right to demand the principal sum from the Government: but he may sell the Annuity, or the Right to receive the future payment to anyone in the open market. It then becomes a Convertible Security, and is called the Funds, or Stock. This operation is termed *Funding the Unfunded or Floating Debt*

In a similar way Railways have been allowed to borrow Money

on their Bonds, termed **Debentures.** Finding it inconvenient to repay these large sums, they have formed them into **Debenture Stock,** upon which they are only bound to pay the Interest, like the Public Funds

On Price

39. When any Economic Quantity is exchanged for any other Economic Quantity, each is termed the Value of the other. But when one or both of the Quantities exchanged is Money or Credit, they are termed the Price of the other. Price is therefore always Value expressed in Money or Credit

Now the Value of Money is the Quantity of any Commodity or Service which can be got in exchange for it: the greater the Quantity so obtained the greater is the Value of Money: the less the Quantity obtained the less is the Value of Money

Or if the commodity be taken as the fixed Quantity, the less the Money given for it the greater is the Value of Money: and the more Money given for it the less is the Value of Money

Hence it is seen that—*The* **Value** *of* **Money** *varies* **Inversely** *as* **Price**

Debts or Credits, however, are Commodities which are bought and sold like any material chattels: and for the convenience of Sale, they must be divided into certain units. Coals are sold by the ton: corn by the quarter: tea and sugar by the pound: and other things by the ounce

The **Unit** *of* **Debt** *is the* **Right** *to demand* £100 *to be paid one year hence*

The sum of Money given to purchase this unit of Debt is its Price: and of course, the less the Price given to buy the fixed Unit of Debt, the greater is the Value of Money

But in the Commerce of Debts it is not usual to estimate the Value of Money by the Price paid for the Debt. As Money naturally produces a Profit, it is clear that the Price given for a Debt payable one year hence must be less than the Debt. The Difference between the Price and the Amount of the Debt is the Profit made by buying it. This Difference or Profit is termed Discount. And it is clear that as the Price of the Debt decreases

or increases, the Discount or Profit increases or decreases. In the Commerce of Debts it is always usual to estimate the Value of Money by the Discount, or Profit it yields

Hence, in the Commerce of Debts—*The* **Value** *of* **Money** *varies* **Directly** *as* **Discount**

This Rule embraces both branches of Commerce—

The **Value** *of* **Money** *varies* **Inversely** *as* **Price,** *and* **Directly** *as* **Discount**

Hence it must be observed that the Term Value of Money has **two** distinct meanings. There are two great branches of Commerce: the Commerce in Goods or Commodities: and the Commerce in Debts. And the expression, Value of Money, has two distinct meanings according as it is applied to these two branches of Commerce. In the Commerce of Commodities the Value of Money means the **Quantity** of the Commodity it can buy: in the Commerce of Debts it means the Profit, or Discount made by buying the Debt

On **Interest** *and* **Discount**

40. Profits made by trading in Money are made in two ways—

1. When the person advancing the Money agrees to defer receiving Profit until the end of the time agreed upon. In this case the Profit is termed **Interest**

If a man "lends" £100 for a year it is in reality a Sale, or Exchange, in which he sells the Money, and in exchange for it he receives the Right to demand £105 at the end of the year: and the £5 is the Interest

2. Where the Profit is retained at the time of the advance, and deducted from the amount "lent." In this case the Profit is termed **Discount**

But Discount itself is of two kinds—

(*a*) In the ordinary books of Algebra it is said that Discount is where the Profit is retained at the time of the advance: and the sum advanced is such a sum as, improved at the given Rate of Profit, would be equal to the full sum at the end of the period of the advance. It is therefore the **Present Value** of the

Sum at the agreed upon Rate of Profit. This may be called **Algebraical Discount.** It is used by Insurance Companies in determining the Present Value of future payments, and in some other cases

(*b*) But this kind of Discount is never used by Bankers. In banking it is invariably the custom to retain the full amount of the Profit agreed upon at the time of the advance. Thus if a Banker discounts a Bill of £100 for a year at £5 per cent., he deducts and retains the full £5, and advances £95. That is, he "lends" £95, and in exchange for it he acquires the Right to demand £100 at the end of the year. As this method is always used in Banking, it may be termed **Banking Discount**

The Profits made by Interest and Algebraical Discount are exactly equal: but Banking Discount is more profitable: because in the former case a Profit of £5 is made on the actual advance of £100: in the latter case on that of £95

In either case the Money is the Price of the Debt, and the Debt is the Price of the Money

The **Rate** of **Interest** or **Discount** is the **Amount** of the **Profit** made in some given **Time,** as the year

On Production

41. The term **Production** comes from the Latin *producere,* to lead or bring forth: it is the technical word in Latin for to *expose for sale*

Thus, in the *Eunuchus* of Terence, Thais says—

"Pretium sperans illico
Producit, vendit"

"*Hoping for a good price, offers her there for sale, sells her*"

So, in the *Heauton Timoroumenus,* Menedemas says—

"Ancillas, servos
Omnes **Produxi** ac vendidi"

"*All the slaves, male and female, I offered for sale, and sold*"

The original sense of **Produce** in English is exactly the

same : it is to *draw forth*, to *cause to come near*, to *place in a given spot*

Thus it is said in Isaiah—" **Produce** your cause, saith the Lord : bring forth your strong reasons, says the king of Jacob : " and the marginal note says—" **Produce,** cause to come near "

So, in *Julius Cæsar*, Antony says—

" That's all I seek,
And am moreover suitor, that I may
Produce his body in the market place "

So, in *Lear*, Albany says—

" **Produce** their bodies, be they alive or dead "

So, when Mr. Montague Tigg gives a dinner to Mr. Jonas Chuzzlewit and his friends, " It was as good a one as Money (or Credit, no matter which,) could **Produce** "

So to Produce a thing is simply to bring it forward, and place it where it is wanted. If a witness is told to **Produce** a deed or other document in Court, it means that he is to bring it into Court, and place it there. So a party to a cause **Produces** his witnesses in Court. A gaoler is ordered to **Produce** the body of his prisoner in Court, *i.e.*, to place him there

In the universal language of commerce the **Producer** is the person who brings any commodity into the market and *offers it for sale*

Hence the true and original meaning of Production in Economics is to place anything in the market where it is offered for sale. And a **Product** is anything whatever which is offered for sale

A great poet may *Produce* a great poem : a great sculptor may *Produce* a great statue : a great artist may *Produce* a great picture : we may estimate their merits most highly : they may be among the highest products of the human intellect : but Economics has nothing to do with anything except their market Value. Now, though the poem, the picture, the statue may be *produced* in nature, or called into existence : they are not **Produced** in Economics until they are *brought into the market and offered for sale*

So, in French, the primary and original meaning of *Produire*

is *pousser en avant:* and of *Production*, it is *action de produire; de mettre en avant*

Three *different* Classes *of* Producers

42. In Economics, then, the term Production means exclusively the action of placing anything in the market where it is offered for sale

Now there are in general **Three** distinct kinds of persons who are required to place any commodity in the spot where it is offered for sale to the final purchaser

1. **Agricultural Producers.** One class of persons obtain the raw produce from the earth: such as agriculturists, miners, hunters, fishermen, breeders of cattle and herds, &c., and bring them into commerce: these are termed **Agricultural Producers**

2. **Manufacturing Producers.** But as the raw produce of the earth is seldom fitted for human use without undergoing several processes of manufacturing and fashioning, manufacturers of all sorts purchase this raw produce from its first or Agricultural Producers, and fashion and transform it by an infinity of processes, so as to render it fit for human use. These are termed **Manufacturing Producers**

3. **Commercial Producers.** But after the raw produce of the earth has been rendered fit for human use, it has to be transported from one country to another: and from one place to another to the shop or market where it is finally offered for sale or use. Hence all modern Economists class **Transport** as one species of **Production.** J. B. Say expressly enumerates Transport under the term Production. So also does Michel Chevalier. Mill, who gives the first book of his work to Production, in the sense of obtaining things from the earth, in a subsequent chapter says—"Improvements in *Production*, understanding the last expression in its widest sense to include the process of *procuring commodities from a distance*, as well as of producing them"

Hence, Merchants, or Foreign Importers, Wholesale and Retail dealers of all sorts, are **Producers,** because they place the product in the spot where it is offered for sale. Hence it is most

important to observe that **Commerce,** or **Circulation,** is one species of **Production.** All these classes are termed **Commercial Producers**

Hence all Production is summed up in placing any article in the place where it is offered for sale. So far as the Customer, or Consumer, is concerned, the *tradesman* in whose shop he finds the article is the **Producer.** It makes no difference to him whether the tradesman keeps workmen in his own employ, and transports the article from his workshop to his counter, or whether he pays an independent manufacturer three hundred miles off to make it, and then transports it to his shop

On **Consumption**

43. The word **Consumption** is the correlative of Production: as Production means placing an article in the spot where it is offered for sale, so **Consumption** means Purchasing the article, and taking it out of Commerce for the purpose of use and enjoyment. It requires some little explanation to shew how this meaning is arrived at

The term in French for Consumption is *Consommation*, which means *Completion*, and was used by the early French Economists to mean simply **Demand**.

Consommation is derived from *Consommer*, which comes from the Latin *consummare*, to *complete* or *accomplish*

Thus La Fontaine says—"En peu de jours il *consomma* l'affaire." "In a few days he *completed* the transaction"

So Pascal says—"On va chercher et *consommer* la démonstration." "We must now seek for and *complete* the proof"

So Dupuis says—"Durant lequelle se *consomme* le grand ouvrage" "During which the great work is completed"

Another writer says—"Le sacrifice d'Isaac, qui ne fut point *consommé*, fut l'image de celui qui fut *consommé* sur la croix." "The sacrifice of Isaac, which was not *completed*, was the type of the one which was *completed* on the Cross"

We need not multiply instances: as every French scholar knows well enough that the genuine sense of *Consommer* is to Complete, or Accomplish

And this was the meaning universally given to **Consommation** by the early French Economists

Thus Le Trosne says—" Il y a cette difference entre l'échange et la vente, que dans l'échange tout est **consommé** pour chacun des parties : elles ont le chose qu'elles voudraient se procurer, et n'ont plus qu'à jouir. Dans la vente, au contraire, et n'y a que l'acheteur qui eut rempli son objet : parce qu'il n'y a que lui qui soit à portée de jouir. Mais tout n'est pas *terminé* pour le vendeur "

And again—" L'échange arrive directement au but, qui est la **Consommation,** il n'a que deux termes, et se *termine* par un seul contrat. Mais un contrat où l'argent intervient n'est pas **Consommé** puisqu' il faut que le vendeur devienne acheteur, ou par lui-même, ou par l'inteposition de celui auquel il tranportera son argent. Il y a donc pour aboutir à la *Consommation* qui est l'objet ultérieur au moins quatre terms et trois contractants, dont l'un intervient deux fois "

So Blanqui says—" Toutes les transactions devaient se **Consommer** par forme d'échange "

Cournot says—" Où se **Consomment** les achats et les vents "

Michelet says—" Il ne **consomme** rien ne *finit* rien "

Consommation, or Consumption, then, in the language of the early French Economists, simply meant the **Completion** of an Exchange. Suppose, for example, that a painter and a sculptor agree to exchange a picture and a statue. When the painter has received the statue, and the sculptor has received the picture, each has **Produced,** *i.e., offered in exchange* his own work, and **Consummated** his desire by obtaining the thing he desired to enjoy. And the Exchange is **Consummated** and **Completed** because each party has obtained a **Satisfaction.** Hence was effected what the early Economists called a **Complete** Exchange. But there was no idea of Destruction in this reciprocal **Consummation** of desires

The *Consommateur*, or Consumer, then, was the person who *Consummated, Completed,* or *accomplished* the desire of the Producer. The Producer brings forward something and offers it for sale : but it is the Purchaser who gives Value to it : it is he who crowns the work, and consummates the desire of the Producer : and completes the transaction by purchasing the product, and

thereby gives it **Value.** The **Consumer,** therefore, meant nothing but the **Purchaser** or **Customer**

Thus *Consommation* was used by the early French Economists simply to mean **Demand**

Thus Boisguillebert, the morning star of modern Economics, says—"*Consommation* (*Demand*) is the principle of all Wealth"

"All the revenues, or rather all the riches in the world, both of a prince and his subjects, only consist in **Consommation** (*Demand*): all the most exquisite fruits of the earth, and the most precious products would be nothing but rubbish if they were not **Consomme's** (*Demanded*)"

So Smith used the word *Consume* to mean simply to *Purchase:* "Though we frequently, therefore, express a person's revenue by the metal pieces which are commonly paid to him, it is because the amount of these pieces regulates the extent of his power of **Purchasing,** or the value of the goods which he can annually afford to **Consume.** We still consider his income as consisting in this power of **Purchasing** or **Consuming,** and not in the pieces which convey it"

It was J. B. Say who first used *Consommation* to mean destruction. We have elsewhere pointed out the absurd consequences to which this leads. But even Say himself says—"The **Consommateurs** (*Consumers*) of things are the **Buyers**:" and certainly persons do not purchase everything for the sake of destroying it

We must, therefore, eliminate all idea of Destruction from the term **Consommation,** or *Consumption,* in Economics: and leave only Purchase as its true meaning. The **Consumer** is simply the **Purchaser** or **Customer**

Meaning of the Expression "Production and Consumption"

44. Hence the student must carefully observe that in the language of Economics the expression "**Production and Consumption**" is one and indivisible: and it must not be separated into its component terms. **Production** and **Consumption** together constitute **Exchange**: and each act of exchange is a phenomenon of Value, or of Commerce

So Burke says—"Market is the meeting and conference of the **Consumer** and **Producer**"

So Bastiat says—"In general we devote ourselves to a trade, or profession, or career: and it is not from that that we expect directly the object of our satisfaction. We render and we receive services: we offer and we demand values: we make purchases and sales: we labour for others and others labour for us: in a word, we are **Producers** and **Consumers**

On **Supply** *and* **Demand**

45. The terms Production and Consumption were used by the early Economists to mean bringing a material product into the market and offering it for sale, and purchasing it, and taking it out of the market for the purpose of use and enjoyment. And so long as the Science of Economics was limited to the Exchanges of the **material** products of the earth, the expression "Production and Consumption" was perfectly intelligible and unobjectionable as equivalent to Exchange. But when the term Wealth and the Science of Economics were extended and enlarged by modern Economists to include Labour and Rights as Wealth and as objects of Exchange in conformity with the unanimous doctrine of ancient writers, great awkwardness arises. For even though it is carefully explained that Production means nothing but *offering for sale*, and Consumption means nothing but *Purchasing*, it is very awkward to speak of the Production and Consumption of Labour

And it becomes still worse when Rights are brought into the science as Exchangeable Quantities, or articles of commerce. For who would understand such an expression as the Production and Consumption of Debts, Shares, the Funds, Copyrights, &c.

Under such circumstances it is indispensable to resort to terms of wider import, which include all the three orders of Economic Quantities: and these we have in the terms **Supply** and **Demand**

Production is the Quantity of anything offered for sale: and the Supply is also the Quantity of it offered for sale: and it is quite usual to speak of the Supply of Labour, *i.e.*, the persons who are offering their Labour for sale: and it is also quite usual

to speak of the Supply of Bills, *i.e.*, of Debts in the market. Hence the word **Supply** is constantly used with respect to all the three orders of Economic Quantities offered for sale : and is, therefore, the term we want

Somewhat more subtlety appertains to the word **Demand**

Demand, of course, is a desire of the mind to possess something : but unless persons possess something to give in exchange for what they want, they can give no effect to their desire : and such an impotent desire is not an Economical phenomenon

It is easy to see that Demand is not the same thing as Consumption : because there may be exactly the same number of things bought or consumed : and yet the **Demand** for them may be very different

Suppose that a theatre holds a certain number of seats : in ordinary times the house may be filled at certain prices. But an artist of extraordinary merit, a Jenny Lind, comes, and the **Demand,** or the desire to possess the seats, increases—prices rise enormously. Now the number of the seats, or the Production, remains exactly the same : the Supply is exactly the same : the number of seats offered for Sale, and the number bought, or the Consumption, remain exactly the same : but the **Demand** has varied greatly

Now, as Value is originally a desire of the mind : but as Value is not manifested as an Economic phenomenon unless an Exchange takes place : and what a person gives to obtain something else is termed the **Value** of that commodity : so Mill has proposed that the Quantity of Money, or anything else, a person gives to obtain something in exchange for it should be called the **Demand** for it. This suggestion is excellent, and clears away many difficulties which surrounded the term : and we shall adopt it. Thus each Quantity offered for sale is the Supply of that article : and the Quantity of the other article given for it is its **Value,** or the **Demand** for it : thus each article exchanged is the **Value** or the **Demand** for the other

Thus, while the terms Production and Consumption were limited to the exchange of the single class of the Material products of the earth : the terms Supply and Demand embrace and comprehend the exchanges of all the three classes of Economic Quantities

Thus, Production and Consumption constitute Exchange : but the relative Quantities in which the things will exchange, are determined by the relation of Supply and Demand

On **Cost** *of* **Production**

46. Production in Economics means, as we have seen, placing any Economic Quantity in the market, and offering it for sale

Consequently, the **Cost of Production** must mean the sum actually expended on it, in all its various stages, to place it in that market

On **Productive Labour**

47. The word **Productive,** like Production, comes from *producere*, to draw forth : it was always applied by the Physiocrates to that which *drew forth,* or **Produced** a **Profit**: *i.e.*, produced a surplus after defraying its Cost. By **Productive Labour,** the Physiocrates meant Labour which produced a Profit after defraying the Cost of Production

So, Smith says, that a Capital may be employed in four different ways, and that all persons who employ their Capital in any of these four ways are **Productive Labourers**

And these passages agree exactly with common usage. Hence, in accordance with them and with general usage, we shall always use the term Productive Labour to mean Labour which produces or earns a Profit

On **Profit** *and* **Rate** *of* **Profit**

48. The word **Profit** comes from the Latin *Proficere*, to make progress

So in Marlowe's *Faustus* the Chorus says—

"So soon he **Profits** in Divinity."

i.e., makes progress

The sum actually expended in placing any commodity in the market is its Cost of Production : the sum it actually sells for is

its Value: and the **Difference** between the Cost of Production and the Value of any commodity is termed the **Profit**

The Value may exceed or may fall short of the Cost of Production. When the Value exceeds the Cost of Production, the Difference, or Profit, is Positive, and is termed a **Gain**: when the Value falls short of the Cost of Production, the Difference, or Profit, is Negative, and is termed a **Loss**

The **Rate** of **Profit** is the **Amount** of **Profit** made in some given **Time**, as a year

Hence the **Rate** of **Profit** varies **directly** as the **Amount** of **Profit**, and **Inversely** as the **Time** in which it is made

On **Payment, Discharge,** *and* **Satisfaction**

49. The words **Payment, Discharge** and **Satisfaction** are often supposed to be identical in meaning, but they are not so

The word **Payment** means **Anything** whatever which is voluntarily taken in exchange for anything else

It is originally from the Sanskrit Paç, which is the same word as the Greek *πήγω*, Doric *πάγω*, *πήγνυμι*

In old Latin this was *pago*, or *paco*, the same as *paciscor*: and also *pango, pegi*, or *pepigi*, or *panxi, panctum*, to covenant, agree for, bargain for, stipulate, or come to terms with

Thus it is said in the Laws of the xii Tables—

"Rem ubi pagunt, orato"

"*If they come to terms let it be settled as agreed upon*"

"Ni pagunt in comitio aut in foro ante meridiem causam conjicito"

"*If they do not come to terms bring the cause before the meeting of the Court before noon*

Hence *pacare*, to appease, or pacify: whence the Italian *pagare*: and our *Pay*

When one person has delivered anything to another person or done any service to him, he is entitled to receive some Equivalent in return, unless it was meant as a donation. But at the same time he has the right to consider **Anything** he pleases an Equivalent

Thus where two persons agree to exchange any material products, each is **Payment** for the other : because each satisfies and appeases the claim that the other has for an equivalent for the product he has given. When goods are paid for in money it is sometimes supposed that it is only the Money which is the Payment. This however is an error. The Money is Payment for the Goods : but the Goods are equally Payment for the Money: because each side has got what he agreed to take in exchange for his product

So, when Money is paid as Wages for work done : the Money is Payment for the Work : but the Work is equally payment for the Money

So, where persons agree to exchange different kinds of Work, each is Payment for the other

So, where a merchant agrees to take a Trader's Bill at three months in exchange for Goods, the Bill is Payment for the Goods. It appeases the claim of the Merchant: because he has got what he agreed to take in exchange for the Goods. When the Bill becomes due, the Trader has to Pay his Bill : that is, he has to appease the claim which the owner of the Bill has for the Money

So if one person has a Debt, or Right of Action against another person, payable on demand, and if he agrees to take his Debtor's Bill at three months : the Bill is Payment of the Debt : and as before the Debtor has to Pay the Bill when it becomes due

Hence to Pay means simply to *appease:* when a man *Pays* a Debt he appeases the Right which the Creditor has to demand a sum of money from him : when he Pays his Rent he appeases the Right which the owner of the House, Land, &c., has against him for compensation for its use

But it does not follow that Payment is the final closing of the transaction. The only legal word which denotes the final closing of the transaction is **Satisfaction.** If a Bill is taken in exchange for Goods : it is Payment : but it is not **Satisfaction** (unless it is expressly received as such) until the Bill itself is Paid

If however the owner of the Bill neglects to follow up his legal remedy, the Bill becomes not only Payment, but **Satisfaction** : by doing so, the owner of it makes it Money

And Economists go further : they say that Money itself is

only a higher order of Bill : and that though giving Money is **Payment**, it is not **Satisfaction** until the Money is exchanged away for something which is desired

Thus though a shoemaker is *paid* when he has got Money for his shoes ; yet he has not got a **Satisfaction**, until he has got bread, or meat, or wine, or anything else he desires in exchange for the Money

The early Economists pointed out that Money is itself only an intermediary in exchange : it is only a general Bill of Exchange or Right, or Title to be paid in something else. They only considered the Exchange as *consommé* or completed, when products had been exchanged against products

It was formerly supposed that the word **Discharge** had the same legal effect as Satisfaction and was the final closing of the transaction. But it has now been decided that Discharge means no more than Payment ; and, therefore, is not necessarily final

On **Capital**

50. We have now come to the last Definition, or General Concept, whose meaning it is absolutely necessary to determine—namely **Capital**

The word Capital is derived from the Latin *Caput*, which means the source of a spring, or the root of a plant, or the source from which any increase flows

Thus Plautus says—

"O scelerum Caput."—"O source or fountain of crimes." "Perjurii Caput."—"O fountain of perjuries"

Stephens, in his Thesaurus, thus defines the word :

Κεφάλαιον—Caput unde fructus et reditus manat :

Capital—*the Source from which any* **Profit** *or* **Revenue** *flows*

So Senior says—"Economists are agreed that **Whatever** gives a Profit is properly termed **Capital**"

And de Fontenay says—"**Wherever** there is a **Revenue** you perceive **Capital**"

This is a good general Definition : and the **whatever** gives a Profit must be interpreted in as wide and general a sense as the

Anything whose *Value can be measured in money* is in the definition of Wealth

Now any Economic Quantity whatever may be used in two different ways—

1. The Proprietor may use it himself for his own personal enjoyment
2. He may trade with it: *i.e.*, he may use it so as to produce a Profit

When any Economic Quantity whatever is traded with and used so as to produce a Profit it is termed **Capital**

The definition of Capital, then, is this—**Capital** *is any Economic Quantity whatever used so as to* **produce** *a* **Profit**

It has been seen that Economic Quantities are of Three distinct orders: (1) Material Things: (2) Personal Qualities: (3) Abstract Rights: and each of these Quantities may be used in either of the above ways

(1) **Material Things.**—Suppose that a person has a sum of money. If he expends it on his own personal enjoyment and gratification, or on his household expenses, such Money is not used as Capital

But if he lends it out at Interest, then he uses it as **Capital**: or if he buys into the Funds: or buys Shares in a Commercial Company which bring him in a Revenue: then he uses the Money as Capital

Or if he buys goods with the intention of selling them again with a profit, he uses the Money as Capital: and the goods are also Capital, because they are intended to be sold again with a Profit

So, if the owner of land lives upon it himself, and uses it for his own enjoyment, he does not use the land as Capital: but if he lets it out to farmers, or to builders to build houses upon, and receives a Rent for so doing: then he uses the land as **Capital.** Some great noblemen possess large tracts of land upon which a great part of London is built: that land yields them an enormous Revenue: and therefore it is **Capital** to them. And so any material thing whatever may be used as Capital

(2) **Personal Qualities.**—All modern Economists—Smith, Say, Senior, Mill, and others, agree with the author of the Eryxias, that **Personal Qualities**—Skill, Energy, Ability, Knowledge, and Character are **Wealth,** and may be used as **Capital:** because persons can make an Income, or earn a Revenue by their employment, as well as by any material chattel

But Personal Qualities may be used as **Capital,** or to earn an Income by, in two distinct ways: if used in one way they are **Labour:** if in the other way, **Credit**

(*a*) **Personal Qualities** as **Labour.**—If a man digs in his garden for his own amusement: or if he sings, acts, or gives lectures for the private delectation of his friends, such Labour is not used as Capital

But if he sells his Labour in any capacity for money: then such Labour is used as Capital by him

Thus Huskisson said—"He had always maintained that **Labour** is the poor man's **Capital**"

So Mr. Cardwell said to his constituents—"**Labour** is the poor man's **Capital**"

So a writer in a daily paper said, speaking of the Irish peasants—"The only **Capital** they possess is their **Labour,** which they must bring into the market to supply their daily wants"

And, speaking of them, the *Economist* said—"They have no **Capital** but their **Labour**"

De Quincey says of serving-men—"His **Estate** is his capacity to serve"

So his Talents and Abilities are Capital to any one who earns an income as an advocate, physician, surgeon, engineer, manager of a great commercial company, or in any other profession. He makes an income which is measurable and taxable, just in the same way as if he made an income by selling corn, or wine, or cattle, or any other material chattels. All modern writers admit that Labour is a Commodity, like a material chattel: and consequently it can be sold for a Profit like any other Chattel; and therefore it may be used as Capital

(*b*) **Personal Qualities** as **Credit.**—But a man may use his Personal Skill, Abilities, Energy, and Character for the purpose of **Profit,** and therefore as **Capital,** in another way besides the direct exchange of them for Money

He may use them for the purpose of purchasing goods, or materials, and employing labour, by giving in exchange for them a *Promise to pay* at a future time, instead of actual Money. In popular language this **Purchasing Power** of **Character** is termed "**Credit.**" A merchant or trader is said to be in "good Credit" when persons are willing to sell to him goods, and take in exchange for them a *Promise to pay* at a future time instead of actual Money. And a trader makes a Profit by trading with his Credit, precisely in the same way as if he traded with Money

Mill expressly defines **Wealth** to be **anything** which has **Purchasing Power:** and in a multitude of places he says, that Credit is Purchasing Power: and therefore Wealth, by his own definition

But a merchant's Credit or Purchasing Power does not enter into Economics until he actually does make some purchase with it: and when he does exercise his Credit in this way, he gives his Promise to pay in exchange for the goods instead of Money: and it is this **Promise to pay,** or **Right of action** to demand payment, which is the Economic Quantity termed a **Credit:** and it may be bought and sold, and traded with, any number of times like any material chattel, before it is paid off and extinguished

(3) **Rights.**—When Personal Qualities are used as Credit, a Right of action, or an Economic Quantity of the third order, is generated: and as we have seen, this Right of action is termed *Pecunia, Res, Bona, Merx*, in Roman Law: χρῆμα, πράγμα, &c., in Greek Law: Goods and Chattels in English Law, because it can be bought and sold, and used as Capital as well as any material chattel. The Traffic in these Rights of action is the most colossal branch of modern Commerce; and is, as we shall see, the express business of Banking

But any other Right may also be used as Capital. If a man buys into the Funds, they produce him a Profit: hence they are

Capital to him. So if he invests his Money in the Shares of a Commercial Company, they are Capital to him. If an author writes a successful work, the Copyright of it is Capital to him: and if he sells it to a publisher, it is Capital to his publisher

There is a class of traders whose business it is to buy and sell Rights, such as the Funds, Shares in Companies, and Securities of this nature: and they keep a stock of this kind of Property on hand, just as other traders keep a stock of material goods

There is no such thing as Absolute Capital

51. It has been shewn in a preceding section that there is no such thing as Absolute Wealth—that is, there is nothing which is by its own nature Wealth, and that whether anything is Wealth or not depends entirely upon Human Wants and Demands

So, also, it must be carefully observed that there is nothing which is in its own nature and always Capital. As Mill observes, the distinction between Capital and non-Capital does not lie in the **kind** of the Commodity, but in the **Mind** of the Capitalist: and in his Will to employ it in one way rather than in another. That is, whether a thing is Capital or not does not in any way depend on the *nature* of the thing itself, but solely and exclusively on its *method of use.* It is sometimes said that Capital is simply the accumulation of the products of past labour. But this is a most vital error, and must be most carefully guarded against. All the accumulation of the past is not used as Capital: but only that portion of it which is traded with: or used for the purpose of Profit. Moreover, material things may be used as Capital which are in no way the accumulation of past labour, such as the Land: and we shall see hereafter that we can trade with, and make a Profit of, not only the *Accumulated Profits* of the *Past*, but also the **Expected Profits** of the **Future**

Capital *may* Increase *in* Two *distinct* Ways

52. Capital may increase in two fundamentally distinct ways—

1. By an actual **Increase** of **Quantity:** thus, flocks and herds, poultry, cattle, and all the fruits of the earth increase by adding to their number or Quantities

2. By **Commerce**, or **Exchange**: that is, by exchanging away something which has a lower value in a place and obtaining something which has a higher value in return for it

Money is used as Capital and produces a Profit by the second of these methods. Money is used as Capital by exchanging it away for goods which are sold for a higher price than they cost: or by advancing a sum of Money and acquiring the Right to be repaid a larger sum at a future period: or by employing Labour and selling its products for a higher sum than they cost. And it is also clear that any Economic Quantity which is used as a substitute for Money, and produces exactly the same effects as Money, may be used as Capital as well as Money: by the force of the Definition which Senior says all Economists are agreed upon

Hence, if a trader or merchant can purchase goods or labour for **Credit**—that is, by giving his *Promise to pay* at a future time instead of actual Money, and can sell the goods at a higher price than he paid for them: and so make a Profit after paying off and discharging the Debt he has incurred—then it is clear that his Credit is Capital to him, exactly in the same way and in the same sense that Money is

Take a very simple example. Suppose that a trader buys goods for £100, and sells them for £125: he first replaces his original Capital of £100, and then he has a Surplus or Profit of £25. He is therefore better off by £25 at the end of the operation than he was at the beginning: and he has used his Money as Capital

On the other hand, suppose that a trader saw that he could make a profit, if only he had the means to purchase the goods: but suppose that he has no Money and no Credit: then he can purchase no goods, and he can make no Profit

But suppose that he has Credit—that is, that the owner of the goods has confidence in his **Skill, Integrity** and **Character**—he may sell him the goods, and take in exchange for them the trader's *Promise to pay* at a future time, instead of actual Money

Now, as the payment is deferred, and there is always some risk of failure of payment, the Price in Credit is always higher than the Price in Money. Suppose that the Price in Credit is £105: then, as before, the trader sells the goods for £125.

At the agreed upon time he discharges his Debt of £105 : and he has a Profit of £20 over. That is, he is better off by £20 at the end of the operation than he was at the beginning : and thus he has used his **Credit** as **Capital**

Now by the Cash purchase he is £25 better off, and by the Credit operation he is £20 better off than he was at the beginning. It is true that he does not make so great a Profit by Credit as by Cash : but yet he has made a Profit by his Credit, which he could not have made without it. Hence, by the very definition his **Credit** has been **Capital** to him : and it has produced exactly the same circulation of commodities that Cash would have done. Hence it is clear that Credit is Productive Capital, exactly in the same way and in the same sense that Money is

Thus we see how a clear and distinct understanding of definitions removes all difficulties and doubts. Many persons have found it very hard to understand how **Credit** is **Capital.** But when we agree that **Anything** which has **Purchasing Power** is **Wealth,** all difficulty vanishes. Because **Credit** is **Purchasing Power.** Money is Purchasing Power : and a trader's Credit is his Purchasing Power of his Character over and above his Money : and therefore, by the very definition, each are equally **Wealth.** And as we have seen that the definition of Capital is **Anything** which produces a Profit : and as we have seen that a trader makes a Profit equally by his Money and his Credit : it necessarily follows that he may use his Money and his Credit equally as Capital

Thus the expression that Credit is Capital, which has called forth so much dissent in recent times, simply means that Commerce is carried on, and Profits are made, by means of Credit or Rights of action, as well as by Money

This meaning of Capital, as denoting anything by which a profit can be made is constantly used in the common language of Politics. Thus where one party in the State makes an error, the other party is commonly said to make Capital of it ; *i.e.*, turn it to their own profit ; or when the Government gains a great military success it is said to make "Capital" of it ; *i.e.*, turn it to their own profit

So Cobden says in a letter—"They have traded for the last

fifteen years as a political party on the Irish Question ; but now that Capital is exhausted "

On **Fixed** *and* **Floating** *or* **Circulating Capital**

53. We have seen that there is no such thing as **Absolute Capital:** that any Economic Quantity whatever may be used as Capital : and that it depends entirely upon the Mind of the user and the Method of use whether any Economic Quantity is Capital or not

But Capital itself may be used in two distinct ways—

1. The Capitalist may retain it in his own possession, and make a continuous series of profits by its use : and consequently the Capital is only replaced with the profits in a series of instalments : Capital used in this way is termed **Fixed Capital**

2. The Capitalist may part with it entirely : and replace the entire Capital and Profits in one operation : hence it goes away from him entirely : Capital used in this way is termed **Floating** or **Circulating Capital**

It must be clearly understood that it is according to the intention of the person who uses it and the purpose and method in which it is used that it receives either of these names. The same article may be Floating Capital in the hands of one person, and Fixed Capital in the hands of its next possessor, if the first produces it for the purpose of selling it outright, and the second purchases it for the purpose of making profit by its use

This distinction is often overlooked, and the term Fixed Capital is often applied to articles of a particular nature : and Floating or Circulating Capital to articles of another nature

Thus Smith enumerates four kinds of Fixed Capital—

1. The useful machines and instruments of trade, which facilitate and abridge Labour

2. Buildings used for purposes of profit both by their proprietor and by those who pay rent for them for trading purposes

3. Improvements in Land

4. The **acquired** and **useful Abilities** of all the members of the society

This enumeration is very imperfect, because it omits all that

stupendous mass of Incorporeal Property which has increased so immensely in recent times

Thus, if a man invests Money in the Funds: or in the Shares of a Company: or in purchasing the Goodwill of a Business: or a Practice: or a Copyright or a Patent: all these are Fixed Capital to their purchasers

Smith also enumerates four kinds of Floating Capital—

1. The Money by means of which the other three are circulated and distributed to their proper Consumers

Under the term Money, he includes Bank Notes, Bills of Exchange, and other Securities for Money: but all these paper documents are merely **Rights** of **action** or **Credit**: hence Smith expressly includes Credit under the title **Floating** or **Circulating Capital**

2. The stock of provisions in the hands of the farmers, graziers, butchers, corn merchants, brewers, &c.

3. The materials in the hands of different workpeople to be made up, clothes, furniture, &c.

4. The work which is made up and completed, but still remains in the hands of the merchants and manufacturers, but not yet disposed of, or distributed to the proper Consumers: such as the finished work in the shops of the smith, cabinet maker, goldsmith, jeweller, china merchant, &c.

It must be carefully observed that Smith's distinction of certain articles as Fixed Capital, and of other things as Floating Capital, is erroneous

Thus houses, lands, &c., are by no means invariably Fixed Capital. It is quite common for speculators to buy up land and build houses for the express purpose of selling them again. In the hands of these speculators, houses and lands so traded with are **Floating Capital**: because the entire property in them is parted with in one operation. But if a person buys land for the purpose of farming it himself for profit: or of letting it out to farmers: or buys or builds the houses for the purpose of letting them to tenants: then such houses and lands are **Fixed Capital.**

Some manufacturers build engines which are sold to Railway Companies: or agricultural implements which are sold to farmers: or machinery which is sold to manufacturers: in the hands of the

makers these engines and machines are **Floating Capital:** because they are made to be sold absolutely and so change masters: and their whole price and profit is paid in one operation. When they come into the hands of the Railway company, the farmers, and the manufacturers, they become **Fixed Capital,** because they remain in the possesion of their owners, who only make a series of profits by their use

So a shipbuilder builds ships and sells them to a Company: in the hands of the builders the ships are **Floating Capital:** in the hands of the Company they become **Fixed Capital**

Articles which are usually classed as Floating Capital may become Fixed Capital. Furniture, and clothes, and plate are usually Floating Capital, because they are usually made for the purpose of being sold. But sometimes they are made for the purpose of being let out for hire, and then they are **Fixed Capital**

If a person buys into the Funds, or Shares, as an investment to produce an income, they are **Fixed Capital.** But there is a class of persons, called Stock Jobbers, who buy this kind of property with the intention of selling it again with a profit: and they keep a stock of it as traders do goods: in the hands of such persons such property is **Floating Capital**

There is another class of traders, called Bankers, whose especial business it is to buy Debts. The Bills in the portfolio of a banker are exactly like the goods in the shop of a trader: the banker buys them at a lower price from one person, and sells them at a higher price to another: hence the bills are **Floating Capital** to the banker

It is therefore incorrect to apply the terms Fixed and Floating Capital to any object, whatever its nature may be, unless we know the intention of its owner in using it. And unless an object is incapable of being applied to more than one of these purposes, it is not correct to call it by either name absolutely. There are very few articles to which the name of Fixed Capital may be invariably applied. The only one to which it seems necessarily to be applied is the knowledge, skill, and capacity of a person: because he cannot sell and devest himself of these qualities: though he may sell the Right to make use of them on a special occasion

The only species of property which is necessarily Floating Capital is Money. Money, to be used, must necessarily be paid away and change masters. Almost all other property is capable of being used in either way at the will of the owner

On the Conversion *of* Floating *into* Fixed Capital

54. It makes no difference to the Capitalist, who lives on the profits of his Capital, whether he reaps that profit in one operation or in many : as the result must always be the same to him in the end. But to the class of persons who live by their daily labour—the workmen in his business—the difference in the mode of employing Capital is of very great importance. Thus, if the builder of the ship sells it immediately, and receives the whole price of it at once, he can employ the full price in building another ship, and the full price may be expended in the wages of ship-wrights, and the producers of the materials for the new ship. In this case the ship is **Floating Capital**

But if the builder of the ship only lets it out for hire, and receives a periodical instalment for its use, he can only employ that part of the instalment which represents the deterioration of the ship in building a new one. Consequently, if he changes the nature of his business very suddenly, that is, if he suddenly turns his Floating into Fixed Capital, the fund applicable to the employment of Labour will be greatly diminished, and it must infallibly cause much distress among the persons who were dependent on him for their support. By seeking other employments they may perhaps be ultimately as well off as before. But it is clear that, if a large number of persons have been accustomed to have a particular kind of labour found for them, any sudden change by which the system is disorganised must produce at least temporary distress. It may be said that the Capital of the purchaser of the ships, instead of going to the builder of the ship, and being spent among that class of workmen, might be employed in encouraging other species of industry, so that the result to the whole community would be the same. But the overthrow of any system upon which a great number of people depend must be followed by much suffering

It appears, then, that the conversion of Floating into Fixed

Capital requires to be done with much caution, and only in certain quantities at a time, to prevent its being injurious to large classes of persons. And if a large class of the public are seized with a sudden mania to convert an unusual quantity of Floating into Fixed Capital, it must be followed by at least temporary distress. In 1847 the enormous quantity of Floating Capital which was suddenly turned into Fixed Capital by the Railway mania in that year was one of the causes of the great financial panic of that year

On the **Three Ambiguities** *in the* **Theory** *of* **Credit**

55. We must now notice Three Perplexities or Ambiguities in the Theory of Credit, which have been the cause of much error, and against which it is necessary to warn the student

First Ambiguity—*A* **Debt** *is not* **Money** *owed by the* **Debtor,** *but the* **Personal Duty** *to* **Pay Money**

When an Obligation has been created by the sale of the Property in Goods or Money, the **Credit** is the **Personal Right** of the Creditor to **demand** the Money, and the **Debt** is the **Personal Duty** of the **Debtor** to **pay** the Money

It is very often supposed that a Debt is Money owed by the Debtor, or Money in the Debtor's possession to which the Creditor has a Right

This, however, is a very great error, which has misled many persons, as we shall see hereafter

This very common error is expressly provided against in the Digest

"Obligationum substantia *non* in eo consistit ut aliquod *Corpus* nostrum faciat; sed ut *Alium* nobis adstringit ad *dandum* aliquid, vel *faciendum* vel *præstandum*"

"*The essence of an Obligation does not consist in this, that it makes any* **Specific Goods** *our Property: but that it binds some* **Person** *to give us something, or to do something, or to supply something*"

Every Jurist has carefully pointed out that a Credit is not the Right to any specific Thing, or a *Jus in re*: but it is a mere abstract **Right** against the **Person,** or a *Jus in Personam*

This error is so widespread and so important that it is of the utmost importance to eradicate it: we shall give some extracts from Jurists to fix it more clearly in the student's mind

Pothier says—"The Right which the Obligation gives the Creditor of proceeding to obtain payment of the thing which the Debtor is obliged to give him, is not a Right in the **thing** itself (*Jus in re*): it is only a Right against the **Person** of the Debtor for the purpose of compelling him to give it (*Jus ad rem*). The thing which the Debtor is obliged to give continues to belong to him, and the Creditor cannot become proprietor of it except by the delivery, real or fictitious, which is made to him by the Debtor in the performance of the Obligation

"And till this delivery is made the Creditor has nothing more than the **Right** of demanding the thing, and he has only that Right against the **Person** of the Debtor who has contracted the Obligation

"Hence, it follows, that if my Debtor, after contracting an Obligation to give a thing to me, transfers it upon a particular title to a third person, whether by sale or donation, I cannot demand it from the party who has so acquired it, but only from my Debtor. The reason is, as the Obligation does not, according to our principle, give the Creditor any Right in the thing which is due to him, I have not any Right in the thing which was due to me that I can pursue against the person in whose hands it may be found"

So Mr. Williams says—"Every person who borrows money on mortgage or not incurs a **Debt** or **Personal Obligation** to repay it out of whatever means he possesses"

So Gide well observes—"A Debt is not the **Material** Object, the **Money**, but the **Juridical** Object, the **Duty to pay**"

The distinction is perfectly plain, and of the greatest importance in Economics; for if the Creditor had the Right to any specific money in the Debtor's possession, that would be a diminution of the Debtor's Property: he would have no right to sell or part with it: and there would, in fact, be only one Economic Quantity in existence, *i.e.*, the quantity of money. But as a matter of fact, the whole of the money remains the Debtor's

Property : which he can sell or exchange as he pleases : and also there is the Property or Right in the person of the Creditor, which he can also sell or exchange as he pleases : and which may be sold or exchanged any number of times till it is paid off and extinguished. Hence, in this case, there are two Economic Quantities in existence, which may each circulate in commerce at the same time

If the Creditor's Right were the Right to a specific sum of money in the Debtor's possession, it would follow that a person could never be insolvent : because, if he had no money, his Creditor could have no Right : but, unfortunately, this is very far from being the case. In too many instances persons are insolvent ; *i.e.*, they are under the *Duty to pay* money, and have no money to pay it with : but the Creditor's *Right to demand* exists, no matter whether the Debtor can pay it or not

If the Creditor's Right was the Right to a specific sum of money, it would follow that the Quantity of Credit in circulation could not exceed the Quantity of money : but this is contrary to fact : because the Quantity of Credit in existence is not much less than fifty-fold the Quantity of Money

Second Ambiguity—*The word* Debt *means the Creditor's* Right of action *as well as the Debtor's* Duty to pay

56. The second Ambiguity is this. The word Debt would seem strictly to mean the Debtor's **Duty to pay** : but it has long been used, both in Law and Common Usage, to mean the Creditor's **Right of action** as well : it is thus used as synonymous with **Credit**

We are not aware that the word *Debitum* was ever used in classical Latin to mean the Creditor's Right of action : in juristic Latin it is used as synonymous with *Obligatio*, and therefore means a Contract : and therefore it includes both the **Right** and the **Duty**

But in the twelfth century the word *Debitum* was commonly used to mean a **Right of action.** In 1194, Richard I. issued instructions for a judicial visitation on financial matters in which it was ordered—

"Omnia **Debita** Judæorum inbrevientur, terræ, domus, reditus et possessiones"

"*Let all the* **Debts** (i.e., **Rights of action**) *and pledges of the Jews be scheduled, their lands, houses, rents, and possessions*"

"Item quilibet Judæus jurabit super rotulum suum quod omnia **Debita** sua et vadia, et reditus, et omnes res, et possessiones suas inbreviari faciat"

"*Also let every Jew swear that he will make a true return of all his* **Debts** (*Rights of action*), *pledges, rents, and all his property, and possessions*"

In mediæval charters the word *Debitale* was used in the same sense. Thus, in one of 1324, it says—

"In omnibus et singulis bonis . . . . dominiis, baroniis, censibus, redditualibus, **Debitalibus,** servitutibus, homatgiis"

"*In all and singular goods . . . . lordships, baronies, revenues, rents,* **Debts** (**Rights of action**), *servitudes, homages*"

In another, of 1374, it is said—

"Acquisiverunt redditus, census annuos, et **Debitalia** in fœdis . . . . . quorum redditorum, censuum, et **Debitalium**"

"*They have acquired the rents, annual revenues, and* **Debts** (**Rights of action**) *in fee . . . . of which rents, revenues, and* **Debts** (**Rights of action**)"

Thus the words *Debitum* and *Debitale* were already, at that period, used to mean **Rights of action** in public instruments: and if they were so used in public documents, it is clear that that must have been their well understood meaning in common language

57. And the word **Debt** has long been used to mean a **Right of action** in English Law and common usage

Thus in the Statute of Acton Burnell, 11 Edward I., 1283 A.D., commonly called the Statute of Merchants, it is said—

"Pur ceo qe marchauntz qi avaunt ces houres unt preste lur aver a diverse genz, sunt cheuz en poverte, pur ceo qe il ni aveit pas si redde ley purvewe, par la quele il poeient lur **Dettes** hastivement recoverir . . . ."

"Le Rei par luy par sun conseil ad ordine e establi, qe marchaunt qi veut estre seur de sa **Dette** . . . ."

" E si le Meire ne troesse achatur face par renable pris liverer les moebles al Creauzur, desqe a la summe de la **Dette** en allowance de sa **Dette** . . . ."

By which it appears that at that time the word Debt had already acquired in English Law, the meaning of a Right of action : a meaning which it has ever since retained both in Law and common usage

So it is said, in " Les Termes de la Ley," first published in 1567—

" **Dett** est un **brief** que gist lou ascun summe d'argent est due a un per reason d'accompt, bargain, contract, obligation, ou auter especialty a este pay a certain jour le quel n'est pay, donques il averent cest brief "

" **Debt** is a **Writ,**" &c.

So Ashe says—

" Quel **Det, Duty, Chose-in-action** ou **Droit** "

So, in the Act, 46 Geo. III. (1806), c. 125, s. 3, it is enacted that — " one **Debt** or **Demand** may be set off against another "

So Mr. Williams says—

" Within the class of *Choses-in-action* was comprised a **Right** of growing importance, namely, that of suing for money due ; which **Right** is all that is called a **Debt** "

" We have seen that a **Debt** was anciently considered as a mere **Right** to bring an action against the Debtor "

" When a **Debt** or **Demand** is equitable only "

" **Debts** being formerly considered as mere **Rights of action** "

So, as may be seen in any daily paper, the executors of deceased persons advertise for any persons who have " **Debts, Claims,** or **Demands** " against the estate, to give in a statement of them

Ortolan says—" Sous le premier point de vue le droit personnel se nomme chez nous **Cre´ance :** chez les Romains Nomen, moins generalement **Creditum** "

Which Messrs Prichard and Nasmith translate thus—

" Under the first point of view a Personal Right is called by us a " **Debt :** " among the Romans **Nomen,** less usually, **Creditum** "

In which they are right, because **Cre´ance**, in French, is the Right of action which a Creditor has against a Debtor: which is, as we have seen, the meaning of **Debt** in English Law

Sometimes the word **Debt** is used in the same Act of Parliament in both senses of the Creditor's **Right of action** and the Debtor's **Duty to pay**

Thus, in the Supreme Court of Judicature Act, 36 and 37 Vict. (1873) c. 66, s. 28, § 6, it is said—

"Any absolute assignment by writing under the hand of the assignor of any **Debt,** or other legal *Chose-in-action* . . . . to receive or claim such **Debt** or *Chose-in-action*"—where the word **Debt** means the Creditor's **Right of action**

But in the same section, § 1, it is said—

"Whose estate may prove to be insufficient for the payment in full of his **Debts** and **Liabilities** . . . . as to **Debts** and **Liabilities** provable" where the word **Debt** means the Debtor's **Duty to pay**

So, in Scotch Law, **Debts** are included under the title Movable **Rights**: and in a Scotch marriage contract it is usual for the bride to transfer to her intended husband "all goods, gear, **Debts,** sums of money, and other movable estate"

An administrator is appointed by the Court of the "goods, chattels, and **Credits**" of the deceased

Thus it is seen that the words **Credit** and **Debt** are used synonymously in Law

It is exactly the same in common usage. A person makes his will bequeathing his **Debts,** *i.e.*, his **Rights of action**

Accordingly, in the Digest of the Law of Bills of Exchange, &c., which we prepared for the Law Digest Commissioners, we began with this fundamental definition—

"**Credit** *or* **Debt** *in Legal and Commercial* [*and Economical*] *language, means a* **Right of action** *against a* **Person** *for a sum of money*"

We need not give any more examples. The student must carefully observe that the word **Debt** is used both in English Law and common usage, quite indiscriminately, to mean both the Creditor's **Right of action** and the Debtor's **Duty to**

pay: and it requires constant vigilance to perceive in which sense it is used

The word **Duty** also originally meant a **Right**: thus the king's **Duties** meant the king's **Right** to levy customs. This meaning appears in the extract from Ashe above cited: but it is seldom used in this sense now

The word Right had also this double meaning in English. Thus Lord Shelburne said in the House of Lords—"He would think that America had as good a **Right** to pay taxes as Britain," *i.e.*, it was as much their **Duty**"

The word Right is not very commonly used in this sense in England at the present day: but it is quite common in Scotland to say, "I have no **Right** to do that," *i.e.*, it is not my **Duty** to do so

The word χρέος in Greek has also this double meaning; it usually means the thing owed: or the Duty to pay it: but the Greek jurists used χρέος to mean the **Right of action**

Thus Demosthenes says—

"τὴν οὐσίαν ἅπασαν χρέα κατέλιπε"

"*He left all his Property in outstanding* **Debts**, i.e., *Rights of action*"

In the Basilica, χρέα is used as synonymous with *nomen*, *créance*

So, in German, the word *Schuld* properly means a Debt or Liability: accordingly, *Schuldner* properly means a Debtor: but Austin says that *Schuld* has also the double meaning: and that in German Law *Schuldner* is often used to mean the Creditor

In French the words **Droit** and **Dette** are also used in the double sense of the **Right** and the **Duty**: but in the one case it is termed the Droit or Dette *Active*: in the other the Droit or Dette *Passive*

Thus Littré says—

"**Dettes Actives**: celles dont on a le droit d'exiger le payement"

"**Dettes Passives**: celles qu'on est obligé de payer"

"**Cre'ance**: droit d'exiger l'accomplissement d'une obligation . . . . on oppose les droits de créance au droits réels:" that is, Personal Rights, or *Jura in personam*, are distinguished from Real Rights, or *Jura in re*"

Thus the student must carefully observe that all these words denoting a Contract or Obligation between two persons; such as χρέος, Debitum, Debitale, Duty, Debt, Right, Droit, Dette, Schuld, are used quite indiscriminately with respect to both parties; and it requires constant vigilance to observe in which sense they are used

The explanation of this seeming confusion is this: χρέος comes from χρή, it is fit or ordained: *Debitum* means that which is due: Right, from *rectum*, means that which is ordered: and if one person has the Right to demand a sum of money from another: it is equally fit: ordained: due: and right that the one party should receive as that the other should pay: hence they are equally χρέα, Debts, Duties, and Rights

On the Continent it is usual to term a person's Rights his **Actif**: and his Liabilities his **Passif**: the words *Droit* or *Dette* being understood

Third Ambiguity—*On the Double Meaning of the words* "**Lend**," "**Loan**," *and* "**Borrow**;" *or the distinction between* **Mutuum** *and* **Commodatum**

58. There is still one more Ambiguity to clear away, which has been the cause of most of the confusion in recent times on the subject of Credit

All the older writers, who were chiefly men who had a practical knowledge of business, seeing that the circulation of commodities is affected, and that profits are made, equally by Money and by Credit, said that **Credit** is **Capital**, without giving any very nice definition either of Credit or of Capital

Smith, as we have seen, expressly classes Bank Notes, Bills of Exchange, &c.—which are **Credit**—under the title of **Circulating Capital**

Since the time, however, of the French Economist, J. B. Say, this doctrine has been the subject of much ridicule. In one passage Say says that those who say that Credit is Capital, maintain that the same thing can be in two places at once. Mill has also, in one place, sneered at those who say that Credit is Capital

But the most remarkable thing is that both these writers have said, over and over again, that Credit is Capital. The fact is, that both these writers, though highly distinguished literary men, were not mercantile lawyers, and were not able to form and retain a clear and distinct grasp of Fundamental Concepts : and they have contradicted themselves in the most extraordinary manner. They have committed one of the most flagrant fallacies in Logic —the Fallacy of Confusion—that is, of using the same word in totally different senses in different passages

Although it would occupy far too much space to quote long passages to prove this, we can shortly point out their fallacies and self-contradictions

Say begins by expressly classing **Instruments** of **Credit** (*Titres de créance*) and the **Funds** under the title of **Wealth:** and he understands that a **Credit** is a **Right of action,** or the Right to a future Payment : and then he repeatedly says that Credit is Capital

But in another passage he considers Credit to be the **Goods** lent : and then he asks how can the same Goods be in two places at once, and serve two persons at the same time

So, also, Mill, in a multitude of places, says that **Credit** is **Wealth** and **Capital :** in such places Mill means the Right of action recorded on paper in the form of Bank Notes, Bills of Exchange, &c. But in another passage he says that Credit is only the **Transfer** of Capital : and then he sneers at those who say that Credit is Capital

Careless and indolent readers, catching at a stinging epigram, who have neither a sufficient knowledge of Mercantile Law to perceive the fallacy, or to have clear ideas on the subject : and who never take the least trouble to compare one part of the book with the other : and who quite overlook the fact that both these writers mean totally different things by the word Credit in different passages of their works, chorus these silly sarcasms

But, as a matter of fact, the Credit is neither the "**Goods**"

lent : nor is it the " **Transfer** " of them : the **Credit** is the **Right of action** to demand payment in Money at a future time, which is given in exchange for the goods, and is their **Price.** It is itself a Property, or an Exchangeable Right ; which circulates in commerce and produces exactly the same effects as so much money, until it is paid off and extinguished

All the confusion and misconception on the subject of Credit has arisen from the want of knowledge of the most elementary principles of Mercantile Law : and from not being aware that the words " **Loan,**" " **Lend,**" and " **Borrow** " have two distinct meanings : and are applied to two transactions of a totally distinct nature

When persons ridicule the idea of Credit being Capital, they argue something in this way : suppose they say, I " lend " my horse, or my book ; or my watch ; or my carriage to my friend : that does not make two horses, or two books ; two watches ; or two carriages : and then they jump at the conclusion that to say that Credit is Capital is to say that to lend a thing *doubles* it

59. We have already explained that there are two kinds of Right—the **Right of Possession** only, and the **Right of Property**

And there are two distinct kinds of " **Loan :** " the one in which the **Right of Possession** only is given for a limited time : and at the end of the time the **identical** thing **lent** is restored to the " lender : " the other in which the Absolute **Right of Property** in the thing " **lent** " is transferred to the " borrower : " and the " lender " only acquires the Right to demand back an **equivalent** amount of the thing " **lent** " both in quantity and quality : but not the **identical** thing " **lent** "

1. The **Commodatum.** There are some things which can be " **lent,**" and the " **borrower** " can enjoy their use without acquiring the Absolute Property in them : and after having so enjoyed their use, he can restore the identical things " lent " to their owner

Thus, if a person lends his horse ; or a book ; or his watch ; or his carriage to a friend, his friend can ride the horse ; or read

the book ; or use the watch or the carriage, without acquiring the Property in them : and after he has enjoyed their use he can restore the identical things to their owner

In such cases the " lender " does not cede the Property in the thing " lent " to the " borrower : " but only the Right of Possession of them for a limited time. The Property and the Possession of such articles so lent remains in the lender ; and he can reclaim them at any time he pleases, without any notice to the borrower. In such cases there is no Exchange or Sale : and there is no new creation of Property. And, of course, in such cases, both the lender and the borrower cannot have the same article at the same time. In such cases the relation of Creditor and Debtor is not created between the parties : and there being no Sale or Exchange there is no Economic phenomenon : and, consequently, such a transaction does not enter into the Science of Economics

In Roman Law such a Loan is termed a **Commodatum**

2. **The Mutuum.** But there is another kind of " Loan " in which the things " lent " cannot be used or enjoyed without their Consumption, Destruction, or Alienation

Thus, if a person " **borrows** " bread, or wine, or oil, or coals, or meat, or butter, or other things of a similar nature, he cannot enjoy their use without destroying or consuming them : and they are borrowed for the very purpose of being consumed

Hence, from the very necessity of the case, the Property in such things in such a Loan must be transferred to the borrower : and what he undertakes to do is to return not the identical things lent, but an equivalent amount of other things of the same nature, and equal in quantity and quality to the things " lent "

So, also, when a person " borrows " Money he cannot have the enjoyment of it unless he exchanges it away for something else : consequently, the person who " borrows " Money must necessarily acquire the Property in it

So, if a person " borrows " a Postage Stamp, he can only use it by affixing it to a letter ; by which it is destroyed : hence the " borrower " must acquire the Property in it

In all cases, therefore, of the Loan of such things as wine, oil, bread, meat, coals, &c., and also of Money or Postage Stamps, the lender cedes the Property in the thing lent to the borrower : and

he acquires the Right to demand back an *equivalent* amount of the things lent : but not the *identical* things. In all such cases a **New Property** is called into existence : and a **Contract** or **Obligation** is created between the "lender" and the "borrower"

In Roman Law a Loan of this nature is termed a **Mutuum**

The Roman Lawyers said that the word Mutuum was derived from *quod de meo tuum fit* (*because from being my Property it becomes yours*). Modern scholars, however, repudiate this etymology. The Romans, as is well known, knew very little of their own language. Modern scholars say that *Mutuum* comes from *Mutare*, to Exchange : as *deciduus* from *decido*, and *dividuus* from *divido*

But though the etymology may be fanciful, as are so many others given by ancient writers, it exactly expresses the fact. In the **Loan** of the **Mutuum** there is always an **Exchange** of **Properties.** In all cases of the Mutuum the relation of Creditor and Debtor is created between the lender and the borrower : and the **Right** which the lender has to demand back from the borrower an equivalent for the thing lent is the **Credit :** or, as Ortolan calls it, the **Price** of the thing lent

Such transactions are always Sales or Exchanges : and are Economic phenomena : and they all enter into the Science of Economics

The student must therefore carefully observe that every **Loan** of **Money** is a **Mutuum :** it is a **Sale** or an **Exchange.** Suppose, as it is commonly said, one person lends to another £100 for one year, at 5 per cent. interest ; what is the real nature of the transaction ? Every Jurist has pointed out that every **Loan** of **Money** is in reality a **Sale,** in which the lender cedes the Property in the Money to the borrower, and in exchange for it acquires the **Right** or **Property** to demand £105 at the end of the year : and this **Right** is termed a **Credit,** or a **Debt.** And the **Money** is the **Price** of the **Debt :** and the **Debt** is the **Price** of the **Money**

60. Hence those things only can be the subject of a Mutuum which consist *in pondere, numero, et mensurâ:* or which may be estimated generically in number, weight, and measure.

Such things, in Roman Law, are termed *Quantitates:* because an equal Quantity of bread, wine, oil, coals, &c., is as good as another equal Quantity of the same things of the same Quality: or one sum of one hundred sovereigns is equal to another sum of one hundred sovereigns: or one Postage Stamp is always equal to another of the same denomination

But also the Digest says that they *mutuâ vice funguntur:* one quantity serves the same purpose as another quantity. From this expression the mediæval jurists called them *Res Fungibiles:* and, in modern English Law, they are termed **Fungibles**

In English Law the former kind of Loan or *Commodatum* is said to be returnable *in specie;* because the *identical* thing is restored: the latter kind of Loan, or the *Mutuum*, is said to be returnable *in genere;* because only *similar things* are restored

Sale of Goods. The same relation as is created by the "Loan" of the Mutuum is created by the Sale of Goods "on Credit." The seller of the goods cedes the Absolute Property in them to the buyer, exactly in the same manner as if he had sold them for money: and in exchange for them he acquires the Right to demand payment for them in money at a future time. This **Right** is a **Property** termed a **Credit**, or a **Debt**: and it is the **Price** of the goods

Thus the Economic Quantity termed **Credit** or **Debt** is the **Right** which is created on a **Loan** of money, oil, corn, bread, wine, coals, or other fungibles, to demand back an *equivalent* Quantity of the things lent: or the **Right** which is created on a **Sale** of goods "on Credit" to demand their **Price** in money at a future time

Theophilus on the **Mutuum** *and the* **Commodatum**

61. This distinction is so important that we may cite a passage from the paraphrase of the Institutes of Justinian, which we prefer to quote because it is more full and distinct than the corresponding passage in the Institutes: and it superseded them as the authorised text-book of Law in the Law Schools of the Empire

"A Real Obligation is contracted by an act, or by the manual

delivery of something counted out: and this includes the Mutuum. A thing is a **Mutuum** where the Property in it passes to the person who receives it: but he is bound to restore to us not the identical thing delivered, but *another* of the same Quality and Quantity. I said, so that the receiver becomes the proprietor of it, that I might exclude the **Commodatum** and the **Depositum**: for in these latter the receiver acquires no Property. But he must be bound to us to exclude the *Donation:* for he who receives one acquires the Property, but is not bound to us. I said, he must restore not the *identical* things lent: but *others* of similar Quality and Quantity, that I might not deprive him of the use of the *Mutuum.* For a person takes a *Mutuum* that he may use the things for his own purposes, and return *others* instead of them. For if he were obliged to give back the *same* things, it would be useless to borrow them

"But all things are not taken as *Mutua,* but only those which consist in weight, number, and measure. In *weight,* as gold, silver, lead, iron, wax, pitch, tin: in *measure,* such as oil, wine, and corn: in *number,* such as Money. And, in short, whatever we deliver with this intent, in number, measure, and weight, so as to bind the receiver to return to us, not the *same* things, but *others* of the same Nature and Quantity. Whence, also, it is called *Mutuum:* because it is transferred by me to you with the intent that it should become your Property (*quod de meo tuum fit*)

"But the Real Obligation includes **Commodatum**: as if any one were to ask me to lend him a book, and I lent it. . . . But the **Commodatum** differs widely from the **Mutuum.** For the *Mutuum* transfers the Property, but the *Commodatum* does not transfer it: and therefore the borrower (*Commodatarius*) is bound to restore the very thing lent"

So it it said in the Digest—"But it is called giving a *Mutuum* because from being my Property it becomes yours (*quod de meo tuum fit*): and, therefore, if it does not become your Property, no Obligation is created"

But, on the contrary, with respect to the *Commodatum*—"We retain the Property and Possession of the thing lent (*rei commodatæ*) . . . . No one by lending (*commodando*) a thing gives the Property in it to him who borrows it"

Thus the whole misconception has arisen from the English

words "**Lend**," "**Loan**," and "**Borrow**" being used to denote two operations of essentially distinct natures. The French language is equally faulty : the words *emprunt* and *emprunter* are equally applied to both kinds of Loan. But the distinction is clearly pointed out in Roman Law : and the Latin language has a distinct word for each operation

All commercial Loans are *Mutua* and not *Commodata :* every Loan of Money is, in reality, a Sale or an Exchange in which a **New Property** is **created,** which is called a **Credit** or a **Debt** : and when the Loan is repaid, it is another Exchange, by which the New Property is extinguished

No one who had the simplest knowledge of the elementary principles of Roman Law, or of Mercantile Law, would ever have committed the mistake of confounding the distinction between the Loan of an ordinary chattel, such as a horse, or a book, or a watch, with a Loan of Money

On the Distinction between a **Debt** *and a* **Bailment**: *or the Distinction between a* **Mutuum** *and a* **Depositum**

62. It has now been clearly shown that Credit is the Name of a species of Incorporeal Property of colossal magnitude in this country, which is bought and sold like any other species of Property : and chiefly by means of Paper Documents

We have still to point out one more common misconception to complete the subject

There are two classes of Paper Documents which are in general use in commerce, and which have some superficial resemblances—that is, they both convey certain Rights, and are both transferable: and are therefore considered by many persons to be of the same nature. But yet they are fundamentally distinct in their nature : and in this radical distinction is contained the basis of the Theory of Credit. And it has been the confusion between these two distinct classes of Paper Documents which has been at the root of most of the false theories of Credit and Currency which have produced such terrible catastrophes in the world

These two species of Paper Documents are :—

1. Bank Notes, Bills of Exchange, Cheques, and all other Securities for money: all these are **Instruments of Credit.**

2. Bills of Lading, Dock Warrants, and all other Titles to specific goods: which are termed in Law, **Documents of Title,** to which class also belong Mortgage Deeds of Land

In order to understand clearly the fundamental distinction between these classes of Paper Documents, we will explain how each of them arises

When a man ships goods on board a vessel, he receives from the captain a Paper Document acknowledging the receipt of the goods, and promising to deliver them to whomsoever shall be the owner of the Paper Document. This Document is called a **Bill of Lading**

The shipper of the goods sends the Bill of Lading to the consignee, who directly he receives it may sell and transfer it to any one else: and so it may be sold and transferred any number of times. And whoever buys the Bill of Lading may go to the captain and demand the goods from him: and the captain is bound to deliver the goods to whomsoever is the owner of the Bill of Lading

Similarly when goods are deposited in a Dock Warehouse, the dock master gives a Paper Document, or Receipt for them, of a similar nature to the Bill of Lading: which Document is called a **Dock Warrant.** This may be sold and transferred any number of times like a Bill of Lading, and whoever buys the Dock Warrant becomes the owner of the goods described in it, and is entitled to demand and receive them from the dock master

And there are other Paper Documents of a similar nature

Now, it is to be particularly observed that, although the goods are delivered into the temporary custody of the captain and the dock master, they have no **Property** in them. They have a mere Right of Possession of them. The Property in the goods remains in the shipper, or the depositor, and is transferred by him along with the Bill of Lading or the Dock Warrant

The goods are what is termed in Roman Law a **Depositum,** and in English Law a **Bailment**: the captain or the dock master is the mere **Bailee** or **Trustee** of the goods, and not their **Owner** or **Proprietor.** He has no Right to convert them to his own use: and if he did so it would be a robbery: and he would be punished as a *thief*

Thus in these cases the goods are merely delivered into the

temporary custody of the captain or dock master: and no new Property is created. The Bill of Lading and the Dock Warrant form **One** Property with the goods, and cannot be separated from them. The goods travel along with the Paper Document. Thus it may be said in this case that the Paper Documents *represent* goods. In every case where a Bill of Lading or Dock Warrant is offered for sale or pledge, there must be some specific goods to which it is the Title; and if there were not, it would be an indictable offence. In fact, buying the Paper Document is only a convenient method of buying the goods themselves

In this case there is no Exchange, and these documents have no Value: *i.e.*, they cannot be bought and sold, or exchanged separately and independently of the goods. They are not exchangeable for goods *generally:* but are Titles to certain specific goods and to no others. No one ever spoke of the **Value** of a Bill of Lading or Dock Warrant. Such Documents are not Credit: because the owner of them does not simply *believe* that he can get goods for them: but he *knows* that he has acquired the Property in certain specific goods. These Paper Documents are in themselves **Nothing**, and are no addition to the general mass of Exchangeable Quantities

In a similar way, when a person borrows money by way of mortgage on land, he actually sells the land to the lender of the money; and the Mortgage Deed is the Deed of Sale, and the Title to that specific piece of land. A Mortgage Deed is a Deed of the Sale of the land with a Right of repurchase by the mortgagor on repaying the money borrowed

Hence all these Documents, Bills of Lading, Dock Warrants, &c., and also Mortgage Deeds, belong to the class of **Jura in re**: they are Real Rights or Corporeal Property

63. But Bills of Exchange, Bank Notes, and all Securities for Money, arise out of transactions of an essentially distinct nature. They all arise out of the sale or exchange of the **Mutuum.** Paper Credit always arises out of an **Exchange,** and never out of a **Bailment.** It is the fundamental requisite of all kinds of Paper Credit that they shall be absolutely severed from any specific sum of money. They are even forbidden to be made payable out of a particular fund. They must be nothing

but abstract Rights against the **Person**: and that is the very circumstance from which they derive their name: because they must be received on the simple *belief* that the person can pay them. If any specific sum of money were set apart for their payment, they would not be **Credit.** Bills of Lading and Dock Warrants always go with the goods: Bank Notes and Bills of Exchange are always exchanged for Money, goods, &c. Bills of Lading *represent* goods, but are not of the *Value* of goods, because there is no exchange, and there can be no Value without an exchange. Bank Notes, Bills, &c., do not *represent* Money, but they are of the *Value* of Money, because, in their case, there is always an exchange. And Credit in all its forms is a mass of independent exchangeable Property: as is well known to every Lawyer, every Merchant, and every Economist

Summary *of* Definitions

64. The student will find it useful to have the results of the preceding investigations condensed in a Summary

Banking is a department of the Science of **Economics**

Economics is the Science of **Commerce** or **Exchanges**: it is also called the Science of **Wealth**: or the **Theory** of **Value**

It may also be conveniently defined that **Economics** *is the Science which treats of the Laws which govern the Relations of Exchangeable Quantities*

Wealth is anything whatever whose *Value can be measured in Money:* or which can be *bought and sold:* or *exchanged*

Wealth, or **Exchangeable Quantities,** are of Three different Forms—

1. Material Things
2. Personal Qualities: as Labour or Service: or Credit
3. Abstract Rights

These Three Orders of Quantities may be exchanged in Six different ways

These Six distinct kinds of Exchange constitute **Commerce** in its widest extent; and in all its forms and varieties; and are the Science of **Pure Economics**

Banking consists of Two out of these Six kinds of Exchange

It consists in the **Exchanges** of **Money** for **Credit** : and of **Credit** for **Credit**

Property is not a *Thing*, but a **Right** : it includes all kinds of Rights which can be exercised over anything : it means **Absolute Ownership**

Hence **Wealth**, or **Exchangeable** or **Economic Quantities**, consist exclusively of **Exchangeable Rights**

Jurisprudence is the Science of **Rights**

Economics is the Science of the **Exchanges** of **Rights**

Economic Quantities are of Three Species—

1. Rights to Material Things which have already come into possession

2. Rights to Personal Services

3. Rights to Things which will only come into possession at a Future Time

Rights to Things which have *already* come into possession, and **Rights** to Things which *will* only come into possession at a *Future* time, are **Inverse** or **Opposite** to each other

Hence, if the former be termed **Positive Economic Quantities**, the latter may be termed **Negative Economic Quantities**

Every Sum of Money is Equivalent to the Sum of the Present Values of an Infinite Series of Future Payments

Rights are divided into **Rights** to specific Things, termed *Jura in Re ;* and **Rights** against **Persons**, termed *Jura in Personam*

Value. *The* **Value** of any Economic Quantity is any **other** Economic Quantity for which it can be exchanged

Money is anything whatever which a Debtor can compel a Creditor to take in Payment of a Debt : it is also called **Legal Tender**

Money is a **Right** or **Title** to demand some equivalent for a product or service done

Credit is a **Right of action** against a Person to **pay** or **do** something

Barter is an Exchange of **Products**

Sale, or **Circulation**, is an **Exchange** in which one or both of the Quantities exchanged is **Money** or **Credit**

Exchange is where Quantities of a **like** nature are exchanged: such as Commodities for Commodities: or Money or Credit for Money or Credit

The Circulating Medium is the Medium by which Circulation is effected: it includes Money and Credit in all its forms

Currency, in Law, means anything in which the *Property passes by delivery:* it includes *Money* and all *written documents of Credit:* as a scientific term in Economics it includes *Money* and *Credit* in all its forms: and is equivalent to **Circulating Medium**

The **Channel** of **Circulation** means the Quantity of Money and Credit existing at any time

Securities *for* **Money** are **Rights** against **Persons** to pay Money

Convertible Securities are **Rights** to **Things** which can be readily sold

Price is the Quantity of **Money** or **Credit** given in Exchange for anything

Interest is the sum paid for the use of Money at the end of the period agreed upon

Discount is where the sum paid for the use of Money is retained at the time of the advance

Rate *of* **Interest,** or **Discount,** is the Amount of Interest or Discount made in some given **Time**

Production means placing any product in the market and offering it for sale

There are Three different Classes of Producers—

1. Agricultural Producers
2. Manufacturing Producers
3. Commercial Producers

Commerce, or Circulation, is one form of Production

Consumption is purchasing any product for use and enjoyment, and finally taking it out of commerce

The expression "Production and Consumption" means Exchange

Supply and **Demand** also mean Exchange

Cost *of* **Production** means the sum actually expended in placing any product in the market

Profit is the difference between the Cost of Production of any product and its Value: or the Quantity it exchanges for

Rate *of* **Profit** is the Amount of Profit made in some given Time

Payment means anything whatever which is taken in exchange for anything else

Discharge is equivalent to Payment

Satisfaction is anything which is received as the final discharge and closing of any transaction

Capital is any Economic Quantity used so as to produce a Profit

Any Economic Quantity may be used as Capital

There is no such thing as Absolute Capital

Capital may increase in Two distinct ways—

1. By actual **Increase** *of* **Quantity**
2. By **Commerce** or **Exchange**

Capital is said to be **Fixed** when it remains in the possession of the Capitalist, and he derives a Revenue from its use

Capital is said to be **Floating** when he parts with it entirely in one operation, and it is restored to him in the Price of the Product

There are **Three Ambiguities** in the **Theory** *of* **Credit**

First Ambiguity. A **Debt** is not **Money** owed by the Debtor, but the **Personal Duty to pay** Money

Second Ambiguity. The word **Debt** means the Creditor's **Right of action,** as well as the Debtor's **Duty to pay**

Third Ambiguity. The words "**Loan,**" "**Lend,**" and "**Borrow**" have Two distinct meanings: and denote Two distinct operations: which are distinguished in Latin as **Mutuum** and **Commodatum**

Bank Notes and Bills of Exchange always represent Debts: and arise out of an **Exchange**

Bills of Lading and Dock Warrants always are Rights or Titles to goods: and arise out of a **Bailment** and not an Exchange

CHAPTER II

THE THEORY OF VALUE

Preliminary Remarks

It is now definitively settled that, used as a technical term in Economics, the word **Wealth** means anything whatever whose Value can be measured in Money : or which can be bought and sold : or exchanged : and that there are **Three** distinct kinds of Things which can be bought and sold. (1) Material Things : (2) Personal Qualities : (3) Abstract Rights

It is also seen that the Value of any Economic Quantity is any **other** Economic Quantity for which it can be exchanged

The **Theory of Value** is the investigation of the Laws which govern the numerical relations in which these Quantities will exchange

The Complete Theory of Value comprehends—

1. The Definition of Value
2. The Origin, Cause, or Form of Value
3. The General Law of Value

It has been already shewn that the complete Science of Economics comprehends Six distinct kinds of Exchanges ; but as the business of Banking includes only two of these six kinds of Exchange, we shall consider only such portions of the Theory of Value as are necessary for our present subject : the complete Theory of Value is developed in our *Elements of Economics*

Section I

The Definition of **Value**

1. Value, in its true and original sense, is a **Desire** of the Mind: it means **Esteem,** or Estimation: As Glo'ster says, in *Lear*—"In the division of the kingdom it appears not which of the Dukes he **Values** most"

So Troilus, in *Troilus and Cressida*—

"For what is aught but as 'tis **Valued**?"

So Henry Esmond says—"There is some particular prize we all of us **Value**: and that every man of spirit will venture his life for"

So J. B. Say says—"**Value** is a **Moral Quality**"

2. But such Value is not an Economic phenomenon. To bring Value into Economics it must be manifested in some tangible form: a person must manifest his **Desire, Demand,** or **Value** for something else, by giving something in Exchange for it to acquire possession of it

But as one person cannot gain possession of what another person possesses without giving him something in exchange for it which he **Desires, Demands,** and **Values,** it is evident that for an Exchange to take place **Requires the Concurrence of two Minds.** It is not sufficient that the **Demand** or **Value** should exist on one side only. If one person desires to obtain possession of what another possesses, it is not sufficient to constitute a phenomenon of Value that he alone should desire it: he must offer in exchange for it something which that other person **Desires** or **Demands.** If a person brought a cargo of wine among a nation of teetotallers, no one would **Desire** or **Demand** it; no one would buy it: among such a people wine would have no **Value**: so, among a nation of non-smokers, tobacco would have no Value: among a nation of

vegetarians beef and mutton would have no Value. However much a person should wish to sell his product, if no one will buy it, it has no Value. For an Exchange, or a phenomenon of Value, to take place, there must be the **Reciprocal Desire,** or **Demand** of **Two** persons, each for the product of the other

When, however, two persons each **Desire** or **Demand** to obtain the product of the other, and when they agree to exchange their respective products, each Product may be considered as the Measure of the desire of its owner to obtain possession of the product of the other. The two products, therefore, reciprocally measure the **Desire** of their possessors to obtain the product of the other: and when these persons have agreed upon the Quantities of their products which are to be exchanged, the two products are said to be of **equal Value.** Each product is **the Value,** or **the Demand** for the other: and this is the only kind of Value with which Economics is concerned

Hence it is obvious that in every phenomenon of Value, or Exchange, there must be **two Demands** and **two Quantities:** and that the true **Origin** and **Cause** of **Value** is **Reciprocal Demand**

Thus, let A and B be any two Economic Quantities which are exchanged at any instant: then we may say—

A **valet** B
or, A is of the Value of B
or, A = B

Then B is the Value of A in terms of B: and A is the Value of B in terms of A

Thus Aristotle says—

"ἡ δ' ἀξία λέγεται πρὸς τὰ ἐκτὸς ἀγαθά"

"*Now the term* **Value** *is used in reference to* **External** *things*"

So it is said in Roman Law—

Res tanti **valet** quanti **vendi** potest

The **Value** *of a thing is what it can be* **Sold** *for*

The Greek word for Value, ἀξία, is derived from ἄγω, one of whose meanings is to **Weigh,** or, *be of the weight of*

So Demosthenes, speaking of some golden goblets, says—

"ἄγουσα ἑκάστη μνᾶν"—"each one weighing a mina." And he says of the sword of Mardonius—"ὃς ἦγε τριακοσίους δαρεικούς"—"which *weighed* three hundred Darics." Hence ἀξία always meant equality, *Weight for Weight:* as when two Quantities are put into a balance and are of equal weight

So Morocco says, in the *Merchant of Venice*—

"Pause, Morocco,
And **Weigh** thy **Value** with an even hand"

So Le Trosne says, that Value is a new Quality which products acquire when men live in society

"Products acquire, then, in the social state which arises from the community of men among each other, a new Quality. This **Quality** is *Value*, which makes products become **Wealth**

"**Value** consists in the **Relation** of **Exchange** which takes place between such and such a product: between such a **Quantity** of one product and such a **Quantity** of another

"Price is the expression of Value: it is not separate in Exchange: each thing is reciprocally the price of the merchandise: in a Sale the Price is in Money"

Hence it is clear that **Value** is a **Ratio,** or an **Equation:** like Distance, or an Equation, it necessarily requires *two* objects

The Value of a thing is always something **External** to itself. It is absolutely impossible to predicate that any Quantity has Value, without at the same time implying that it can be exchanged for something else: and, of course, everything that can be exchanged for it, is its Value in that commodity. Hence any Economic Quantity has as many Values as Quantities it can be exchanged for: and if it can be exchanged for nothing it has no Value

Hence a single object cannot have Value. A single object cannot be **Distant:** and cannot be **Equal.** If an object is said to be Distant or Equal, we must ask—Distant from What? or—Equal to What? So, if any Quantity is said to have Value, we must ask—*Value in What?* And, as it is absurd to speak of Absolute or Intrinsic Distance; or Absolute or Intrinsic Equality; so it is equally absurd to speak of **Absolute** or **Intrinsic Value**

3. But any Quantity may have Value in terms of any other

Suppose that B, as above, is 10 guineas : then A may be either of the **Three** species of Economic Quantities. It may be a Watch, or so much Corn, or Timber, or Clothes : or it may be so much Labour, Instruction, or Amusement : or it may be a Debt, or Right of action, or the Funds, or a Copyright, or any other Incorporeal Right. Each of these species of Property is of the Value of 10 guineas : and, therefore, it manifestly follows that each of them is equal in Value to the others : because *Things which are equal to the same thing are equal to each other*

The Value of the Money in the pockets of the public is the various products and services it can command : the Value of the goods in the warehouses of the merchants and traders is the Money in the pockets of the public

The Value of a workman's Labour is the Wages he can earn : the Value of a Professor's Lectures is the Fees paid by his Students. The Value of the Labour of the Advocate, the Physician, or the Engineer, is the Income he earns

The Value of an Incorporeal Right is the **Thing Promised** which may be **demanded**

The Value of a £5 Note is five Sovereigns: the Value of a Postage Stamp is the Carriage of a Letter : the Value of a Railway Ticket is the Journey : the Value of the Promise or Pledge to cut a man's hair is the cutting of the hair : the Value of an Order to see the play is the Seeing of the play : the Value of an Order for bread, milk, wine, &c., is the Bread, the Milk, the Wine, &c.

Suppose that the Price of cutting one's hair is a shilling ; what difference does it make to me whether I have a shilling or a Promise of a hairdresser to cut my hair ? Is it not clear that in this case the Shilling and the Promise are of exactly the same Value to me ?

If I want a loaf of bread which costs a Shilling, what difference does it make to me whether I have a Shilling or the Promise of a baker to give me the bread ? In such a case the Shilling and the Promise are exactly of the same Value to me

In short, in the case of every product or service, the Money to purchase it with, and a Promise to render the product or the service, are of exactly equal Value in each separate case

Each separate tradesman, of course, only promises to render some particular product or service: and as the Promise is not demandable from any one else, each Promise has only **Particular** Value: and as that person may become bankrupt or die, the Promise has only **Precarious** Value

Now, what is Money by the unanimous consent of Economists? It is nothing but the generalised **Right** or **Title** to demand *any* of these products or services we may require at any particular time: and as there is always some person who is willing to render these products or services if another cannot, Money has **General** and **Permanent Value:** while each of these Promises has only **Particular** and **Precarious Value**

Each of these separate Rights, then, is of exactly the same *Nature* as Money; but is of an inferior *Degree.* But they are Economic Quantities, or Wealth, for the very same reason that Money is. Is it not clear that, if a man had his pockets full of Promises or Pledges by solvent persons to render him all the products and services he might want, he would be exactly as Wealthy as if he had so much Money? And he can always sell and exchange any of these orders, for orders for a different thing, just as he can material chattels. Hence we see the perfect justice of the doctrine of Roman Law—"Under the term **Wealth** . . . . **Rights** are included"

These Rights are the most colossal species of Property in the country: and they are the subject of the most gigantic commerce of modern times, whose mechanism will be fully exhibited in a future chapter

4. As Value is the Ratio in which any two Economic Quantities will exchange, it is clear that the Value of A in terms of B increases or decreases according to the greater or less Quantity of B that A can purchase: and the Value of B in terms of A increases or decreases according to the greater or less Quantity of A that B can purchase. It is also clear, that if from any cause whatever, the Value, or Ratio, between these Quantities has changed, the Value of **both** has changed. It is manifestly as absurd to say that the Value of one Quantity has remained the same, while that of the other has changed, as it would be to say that a Railway Station has remained at the same distance from a train, while the train has increased its distance from the station

Moreover, it is as absurd to speak of a Quantity changing its own Value, or keeping its own Value fixed, without stating the article with respect to which its Value has changed, or remained fixed, as it would be to say that an object had changed or preserved its own Distance, or Ratio, without saying Distance from what, or Ratio to what

Hence it is clear that nothing can have Fixed or Invariable Value unless everything else is Fixed and Invariable in Value as well: because, though a Quantity may retain its Value unchanged with regard to a certain number of things, yet if its Value has changed with respect to any other things whatever, the Value of that Quantity has changed

And as the Value of anything is solely anything else for which it can be exchanged, it is manifest that, if it can be exchanged for nothing, it has no Value. No matter what Qualities it may possess, if no one else wants it, and will not give anything for it, it has no more Value for its owner than if he were in the centre of the Desert of Sahara. Many persons have almost a difficulty in believing that Money can have no Value: but Smith himself says that, if a guinea could not be exchanged for anything, it would be of no more Value than a bill upon a bankrupt. So Say says, that things can only be Valued by an Exchange

So a recent writer, describing the splendour of the houses in some of the remote country districts of Spain, says, "Houses and splendid furniture in such places are nearly *Valueless:* there is no one to hire the former, nor to buy the latter"

There may be a General Rise *of* Prices, *but not of* Values

5. Having thus enforced the doctrine that *the* Value of any Economic Quantity is any *other* Economic Quantity for which it can be exchanged, there is only one other thing which need be noticed here

Price is the Value of a Quantity in Money or Credit only. Now, if Money and Credit be increased very greatly in Quantity, the Prices of all things may rise: but they will still preserve their relative Values among themselves. If a loaf of bread and a pound of meat each cost a shilling, and if, in consequence of the ex-

cessive abundance of Money and Credit, they each rise to two shillings, the pound of meat is still of the Value of the loaf of bread. Hence there may be a general rise, or a general fall, of Prices

But there can be no such thing as a general rise, or a general fall, of Values. Everything can no more rise or fall with respect to everything else, than, as Mill says, a dozen runners can each outrun all the rest, or a hundred trees can all overtop one another. To suppose that all things could rise relatively to each other, would be to realise Pat's idea of society, where every man is as good as his neighbour, and a great deal better too

On the Error of the Expression **Intrinsic Value**

6. We must now say something about an expression which has been the source of enormous confusion in Economics: which has especially obscured the comprehension of the subject of Credit: and no progress can be made in the science until it is entirely exterminated

All ancient writers clearly understood that the Value of a thing is something **External** to itself, and we have not found in them any trace of such confusion of ideas as **Intrinsic Value**

It is not easy to determine when the unfortunate expression, **Intrinsic Value,** came into use. But it arose in this way. When people thought about Value, they looked to some Quality of a thing as its Value. They therefore gradually began to speak of Intrinsic Value. So long ago as 1696, an able writer, Barbon, pointed out the confusion which had arisen from mistaking the absolute Qualities of an object for the Quantity of things it would exchange for—

"There is nothing which troubles this controversy more than for want of distinguishing between **Value** and **Virtue**

"Value is only the Price of things: and that can never be certain: because it must be there at all times and in all places of the same Value: therefore, nothing can have **Intrinsic Value**

"But things have an **Intrinsic Value** in themselves, which in all things have the same Virtue: the loadstone to attract

iron ; and the several Qualities that belong to herbs and drugs, some purgative, some diuretical, &c. But these things, though they may have great **Virtue,** may be of small **Value,** or no Price, according to the place where they are plenty or scarce ; as the red nettle, though it be of excellent **Virtue** to stop bleeding, yet here it is a weed of no **Value** from its plenty. And so are spices and drugs in their own native soil of no **Value** but as common shrubs and weeds, but with us of great **Value,** and yet in both places of the same excellent **Intrinsic Virtue** . . .

"For these have no Value in themselves : it is opinion and fashion brings them into use and gives them a Value"

Barbon thus puts his finger on the very phrase which is the curse and the bane of Economics at the present day—the expression, **Intrinsic Value**—which is confounding an **Intrinsic Quality** with an **External Relation**

The following passage from Senior shows how easily able men are betrayed into this error. He says, "We have already stated that we use the word Value in its popular (?) acceptation, as signifying that *Quality is anything which fits it to be given and received in exchange ;* or, in other words, to be lent or sold, hired, or purchased

"So defined, Value denotes a *Relation reciprocally existing between two objects*"

Now, the Quality of a melon which fits it to be sold is its agreeable flavour : its flavour, therefore, according to Senior, is its Value : and, so defined, he says it means that it costs 5*s.* ! That is, he defines the Quality of a thing to be its Price !

Smith, however, is the principal author of the confusion in this subject in modern times. As we have pointed out in another work, he begins by defining the Value of a thing to be the thing it will exchange for : he then suddenly changes his idea of Value to the **Quantity of Labour** expended upon obtaining the thing itself. Thus, the **Quantity of Labour** necessary to produce it, came to be considered as the Value of a thing, and then Value came to be called **Intrinsic.** This unhappy phrase, **Intrinsic Value,** meets us at every turn in Economics ; and yet the slightest reflection will show that to define Value to be something **External** to a thing ; and then to be constantly speaking of **Intrinsic Value,** are self-contra-

dictory and inconsistent ideas. And it came to be held that Labour is necessary to, and is the cause of, all Value

Thus, over and over again, it is repeated in Economical treatises that Money has **Intrinsic Value,** but that a Bank Note or Bill of Exchange is only the *Representative* of Value

Money, no doubt, is the produce of Labour : but Smith himself says that if Money would exchange for nothing it would have no Value : so that, after all, he comes back to Exchangeability as the real essence of Value. How, then, can the Value of Money be Intrinsic ? How can anything have Intrinsic Value unless it has the things it will exchange inside itself ? Money will exchange for anything—lands, corn, houses, carriages, books, &c., and each of these is a Value of the Money: but which of these is its **Intrinsic** Value ?

Money remains exactly the same in itself wherever it may be placed : a hogshead full of sovereigns would have immense Value in the middle of London ; but if a man had them in the midst of the ocean, or on a desert iland, where would their Value be ?

All Economists admit that a Bank Note, payable on demand, is of the Value of Money : and why is it so ? Simply because it is exchangeable for Money. Hence it is clear that a Bank Note has Value for exactly the same reason that Money has, and for no other ; namely, that they are exchangeable for something else. As Daniel Webster said truly, " Credit is to Money what Money is to goods." Credit is the Right to demand Money, and Money is the Right to demand goods. When Money can be exchanged it has Value ; when it cannot be exchanged it has no Value : when a Bank Note can be exchanged it has Value ; when it cannot be exchanged it has no Value

Hence it is clear that the Value of Money and Credit of all kinds is essentially of the same nature ; though there may be different degrees of it. A piece of Credit, by the unanimous doctrine of all Jurists, Economists, and Merchants, is an article of merchandise, and an exchangeable commodity, just like Money, or any other goods.

The expression Intrinsic Value is so common that persons are apt to overlook its incongruity of ideas : it is, however, a plain contradiction in terms : and if we use words of similar import, whose meaning has not been so corrupted, its absurdity

will be apparent at once. Thus, whoever heard of **Intrinsic Distance**? or of an **Intrinsic Ratio**? The absurdity of these expressions is apparent at once: but they are in no way more absurd than **Intrinsic Value.** If we speak of the **Intrinsic Value** of Money, we may just as well speak of the **Intrinsic Distance** of St. Paul's; or the **Intrinsic Ratio** of Five. To say that Money has Intrinsic Value because it is material, and the produce of Labour, and that a Bank Note or Bill of Exchange is only the Representative of Value, is just as absurd as to say that a wooden yard measure is Intrinsic Distance, and that the space between two points a yard apart is the Representative of Distance

On the Distinction between **Diminution in Value** *and* **Depreciation**

7. We must now observe the difference between two expressions which, though often used indiscriminately, are essentially distinct; namely, **Diminution in Value** and **Depreciation.** An **Alteration in Value** of any commodity means that the Quantity of it which was considered as the equivalent for a certain amount of another commodity has undergone a change. If corn is at one time worth 40*s.* a quarter, and at another time worth 60*s.* a quarter, these two Quantities have undergone an **Alteration** *in* **Value. Depreciation** means that it is not really of the Quality it professes to be. *Alteration in Value* always refers to some *other* commodity with which it is compared: *Depreciation* is in reference to *itself.* Hence Alteration in Value always refers to External Quantity: Depreciation to Internal Quality—which, however, may affect its external Relations

If at any time an ounce of Gold will exchange for fifteen ounces of Silver; and if, owing to a sudden increase in the quantity of Silver, an ounce of Gold becomes able to purchase twenty ounces of Silver, Silver is said to have *fallen in value* with respect to Gold: the quality of the Silver remaining exactly the same. Or if, while the quantity of Silver remained the same, Gold became extremely scarce, so that an ounce of Gold would similarly buy twenty ounces of Silver, Gold would be said to have *risen in value* with respect to Silver. In either case the result is the

same: there is an **Alteration in Value,** or a change in the Exchangeable relation of the two metals: while each continues exactly of the same Quality

But if a piece of money, as a Sovereign, which ought by law to contain a certain amount of pure gold, does not contain the amount it ought to, it is **Depreciated;** or if a Bank Note which professes to be of the Value of five Sovereigns will only purchase four Sovereigns, it is **Depreciated**

These distinctions are of great importance, though they are often overlooked: and they are especially necesssary to be observed in all discussions regarding the value of coins which retain the same name through a long series of ages. The pound of Money in the days of William I. really meant a pound weight of Silver Bullion: and silver was the only money. Since then silver has greatly increased in quantity, and other things, such as Gold and Credit, are used as money as well: which have greatly tended to diminish the value of silver. It is said, though of course all such statements are extremely difficult to verify, that silver has fallen to the twelfth part of its value in these times. But not only has the value of silver greatly *diminished*, but also the coinage has been greatly **Depreciated.** The shilling was originally the 20th part of a pound weight of Silver Bullion: it is now reduced to the 66th part. Hence, not only is silver greatly *diminished in value,* but the coinage is also greatly *depreciated:* and it is often said that, in consequence of these combined causes, the modern shilling is only of the 36th part of the value it was in the time of William I.

These causes affecting the value of coins which retain their names through long periods, may act in the same or in opposite directions. In the coinage of England, these two causes acted in the same direction. But they may also act in opposite directions. A coinage may be greatly depreciated, *i.e.*, diminished in quantity, but from the increased value of the material, it may be able to purchase as much as it did in its original state. It is sometimes alleged that this happened at Rome. The first coinage of Rome was of copper, and the metal was found in great abundance for a considerable time after the foundation of the city. The first measure of value was the *as*, which was a pound weight of copper. The *as* was subsequently, about the time of the second Punic

war, reduced to the twelfth part of its weight : and some writers allege that, in consequence of the great scarcity of the metal, it had increased in value so much that the depreciated coinage would purchase as much as the full pound of copper would originally. This may have been so or not : but it in no way affects the argument ; it might very possibly have been so

The same principle applies in many other cases : in a besieged town the vilest garbage has sometimes sold for enormous sums : and damaged corn in one year may sell at a higher price than the best corn in another year

These considerations greatly affect the public in matters of public debts. The State agrees at a particular time to pay a fixed quantity of bullion for ever, or for a long period of time. Now, even supposing that all other things remain the same, the Value of the money may vary greatly during long periods, either from the increased scarcity or the increased abundance of the metal : and either the State or its Creditors may be grievously affected by these changes

The Public Debt of England has not been sufficiently long in existence to be much affected by this last consideration : but it has been very sensibly felt in perpetual leases granted by Corporations several centuries ago to their tenants : in some cases Rents were fixed in the Money of the period, and in consequence of the great diminution in the Value of Money since that time, the Rents have been little more than nominal at the present time : in other cases the Rents were reserved payable in the value of certain quantities of corn : and so have preserved their due value with other commodities

A **Standard of Value** *is Impossible; but there may be a* **Measure of Value**

8. That unfortunate confusion of ideas between the Value of a commodity being the Quantity of another commodity it will purchase, and the Quantity of Labour embodied, as it were, in the commodity itself, which is chiefly owing to Smith, and adopted by Ricardo, has not only led to that mischievous expression, **Intrinsic Value,** the source of endless confusion in Economics, but also to the search for something which very slight reflection

would have shown to be impossible ; namely, an **Invariable Standard of Value**

It is as well to explain what those Economists mean who want an Invariable Standard of Value

If we had a British yard and any foreign measures of length before us, we could at once perceive the difference between them : and if we were told the measurements of any foreign buildings, however remote in age or country, we could by a very simple calculation, reduce them to the standard of British measurement ; and compare them with the size of our own buildings

Those Economists who want an Invariable Standard of Value, want to fix upon some single commodity by which they can compare the Value of all other things in other countries and ages

But the least reflection will show that such a standard is absolutely impossible by the very nature of things. Money is, indeed, termed the Measure of Value : and so it is in exchanges which are affected at the same time and place. If we are told that a quarter of corn is worth 60*s*., and that a sheep is worth 60*s*. at a certain time and place, we should say that they are then and there equal in Value

But such matters are not the result of simple perception by the senses. If a quantity of gold were placed beside a number of other things, no human sense could discern what their Value would be. And the most violent changes in their several Values might take place in the market, without there being any visible signs of such a thing. Value is a **Mental affection :** and Values are not perceptible by ocular demonstration, but they must be declared by the communication of **Minds**

Moreover, it is not possible to ascertain the different Values of different quantities of gold obtained in different ages and countries. If a quantity of gold coins minted in the time of Elizabeth : an equal quantity minted in China : and an equal quantity minted in the reign of Victoria were placed side by side, what human sense could discern the difference in Value between them ? And yet that is what those Economists require who want an **Invariable Standard of Value.** They want something by which they can at once decide whether Gold is of more Value in A.D. 100; in A.D. 1400 ; in A.D. 1880 : in England, or in China, without reference to anything else

But the only test of Value is an Exchange : and unless we can effect an Exchange, there can be no Value. How can we exchange an ounce of gold in the year 180 for one in the year 1580, or for one in the year 1880 ? Bailey well says—" Value is a relation between *contemporary* commodities, because such only admit of being exchanged with each other : and if we compare the Value of a commodity at one time with its Value at another, it is only a comparison of the relation in which it stood at these different times to some other commodity. It is not a comparison of some intrinsic independent Quality at one period, with the same Quality at another period, but a **Comparison of Ratios,** or a comparison of the relative Quantities in which commodities exchanged for each other at two different epochs. If a commodity A, in the year 100 was worth 2 B, and in 1800 was worth 4 B, we should say that A had doubled its value to B. But this, which is the only kind of comparison we could institute, would not give us any relation between A in 100 and A in 1800 : it would be simply a comparison between A and B in each of these years

" It is impossible for a direct Ratio of Value to exist between A in 100 and A in 1800, just as it is impossible for the relation of distance to exist between the sun at the former period and the sun at the latter period "

The fact is, that all this search after the impossible has arisen from Smith's unfortunate idea that the **Value** of a thing is the **Quantity of Labour** bestowed in obtaining it, which, as we have seen in a former chapter, was adopted by Ricardo. From this idea it followed that, if any Commodity could always be obtained with an invariable quantity of Labour, it would be an Invariable Standard of Value : Ricardo admitted that there was no Commodity which is always obtained by an invariable quantity of Labour ; and, therefore, for that reason alone, he admitted that an Invariable Standard of Value was unattainable

An Invariable Standard of Value, however, is not only unattainable for the reason given by Ricardo, but it is in itself absolutely impossible by the very nature of things : because Value is a Ratio : and a *single Quantity cannot be the Measure of a Ratio.* A measure of length or capacity is an absolute single Quantity : but Value is a Ratio. We may measure a tree with a

yard ; or a hogshead with a gallon measure ; because they are each of them *single* Quantities : but Value is a Ratio : and it is impossible to say that

$$a : b :: x$$

It is manifestly absurd to say that 4 is to 5 as 8, without saying 8 is to what : just as it is absurd to say that a horse gallops at the *rate* of 20 miles, without saying in what time

Besides, as we have shown before that there can be no such thing as an Invariable Standard of Value by which to measure the variations in Value of other things, because by the very nature of things, the very condition of anything being invariable in Value is that nothing else shall vary in Value : and, consequently, the very condition of there being an Invariable Standard of Value is that there shall be no variations to measure

But when we consider that Value is originally a **Desire** of the Mind, there may be a **Measure of Value:** because any commodity may be fixed upon to measure the intensity of the **Desire** of persons to obtain something else : but even this is only a measure for contemporary transactions : it cannot be a permanent measure extending through all ages and countries

Section II

On the **Origin, Source,** *or* **Cause** *of* **Value**

9. We now come to the second branch of our inquiry—What is the **Origin, Source,** or **Cause,** or, in the language of Bacon, the **Form** of Value, and whence does it originate ?

Now, when we are to search for the Cause or Source of Value, it is necessary to understand what we are searching for. There are three distinct orders of Quantities, each containing many varieties which all have Value : we must, therefore, look manifestly for some **Single** Cause which is common to them all : and ascertain what that **Single** Cause is by genuine Induction

Bacon says—"But the Induction which is to be available for the discovery and demonstration of sciences and arts must analyse nature by proper rejections and exclusions, and then after a sufficient number of **Negatives,** come to a conclusion on the **Affirmative** instances."—"Now what the sciences stand in need of is a form of Induction which shall analyse experience, and take it to pieces, and by a due process of exclusion and rejection, lead to an inevitable conclusion"

The first step in this process of Induction is to make a complete collection of all the different kinds of Quantities, of whatever nature they may be, which have Value. "For whoever is acquainted with Forms [*i.e.*, Causes] embraces *the unity of nature in substances the most unlike.* From the discovery of Forms [Causes] results Truth in Theory and Freedom in Practice"

Bacon earnestly inculcates as the foundation of all true science a careful collection of all kinds of instances in which the given Nature is found—"The investigation of Forms proceeds thus : a Nature being given, we must first of all have a muster or presentation before the understanding of all known instances which agree in the same Nature, *though in substances the most unlike.* And such collection must be made in the manner of history, without premature speculation"

Bacon then exemplifies his method by an investigation into the Form of Heat : and he gives tables of the divers instances agreeing in the Nature of Heat : also where it appears in different degrees—"The work and office of these tables I call the Presentation of Instances to the understanding, which presentation having been made, Induction itself must be set to work : for the problem is upon a review of the instances, all and each, to find such a Nature as is always present or absent with the given Nature : and always increases or decreases with it : and which is, as I have said, a particular case of a more general Nature"

"We must therefore make a complete solution and separation of Nature, not indeed by fire, but by the **Mind**, which is a kind of divine fire. The first work, therefore, of true Induction (as far as regards the discovery of causes) is the rejection or exclusion of the several Natures which are not found in some instances when the given Nature is present? and are found in some instances where the given Nature is absent: or are found to increase in some instances where the given Nature decreases : or to decrease when the given Nature increases. Then indeed, after the rejection and exclusion has been duly made, there will remain at the bottom, all light opinions vanishing in smoke, a Cause affirmative, solid, and true, and well defined"

An indispensable part of Induction is the rejection of erroneous causes—"I must now give an example of the Exclusion and Rejection of Natures which by the table of presentations are found not to belong to the Form (of Heat), observing in the meantime not only each table suffices for the rejection of any Nature : but even any one of the particular instances contained in any of the tables. For it is manifest from what has been said that *any* **One** *contradictory instance* overthrows a conjecture as to the Cause"

10. Bacon has exemplified his process of Induction by investigating the Cause of Heat: our present task is to investigate the **Cause** of **Value**

Following the example of the mighty Master, we must begin by making a complete collection of **Instances** of **Value**: and we must now enumerate all the different kinds of Quantities which have Value. These are—

1. **Corporeal** or **Material Property.** Under this species are comprised the following different varieties—

Lands : Trees : Cattle : Flocks and herds of all sorts : Corn and other fruits of the earth : Houses : Furniture : Clothes : Money : Fish : Minerals of all sorts : Precious Stones of all sorts : Pearls : Manufactured Articles of all sorts

2. **Immaterial Property.** Under this species is comprised Labour of all sorts : Agricultural : Artisan : Professional : Scientific : Literary

3. **Incorporeal Property.** Under this species are comprised the following varieties : Rights of action, or Credits or Debts of all sorts : the Funds : Copyrights : Shares in companies : the Goodwill of a business : the Practice of a profession : Tolls : Ferries : Annuities of all sorts : Advowsons : Ground Rents : Shootings : Fishings, &c.

We must now investigate the Cause of Value in all these different Quantities : we must first of all, by a due and systematic course of Rejections and Exclusions, eliminate all intrusive and accidental Ideas which may sometimes accompany Value. And after completing this process of exclusion, we must end by an affirmative, and discover that **Single General Cause** which is common to **All** these different Quantities : which being present Value is present : which, when it increases, Value increases : which, when it decreases, Value decreases : and which, being absent, Value is absent

Demand *is the* Sole Cause *of* Value

11. Aristotle, and all ancient writers, unanimously show that **Demand** is the **Origin** or **Cause** of **Value** : and, considering that they held **Exchangeability** to be the sole essence and principle of Wealth, it could not be otherwise. Because, if a thing is to be Exchangeable, there must be a **Demand** for it. If I offer something for sale, what is necessary that it should be sold ? Simply that some one else should **Desire** and **Demand** it

The author of the Eryxias over and over again points out that **Demand** is the sole cause which constitutes anything Wealth : that anything, whatever its nature may be, is Wealth so long as

it is Demanded and paid for: and that a thing ceases to be Wealth when it ceases to be **Demanded.** He pointed out that the local money of different places is only Wealth when and where it has the Power of Purchasing: and is not Wealth when and where it has no Power of Purchasing

It has been already shewn that the true meaning of the word χρῆμα, which is one of the most usual words in Greek for Wealth, is simply "**Anything** *that is* **Wanted** *and* **Demanded:**" and that things are only χρήματα, where they are χρήσιμα, or **Demanded:** and that when they are not χρήσιμα, **Demanded,** they are not χρήματα, **Wealth**

The very same doctrine is laid down in Roman Law. It is said there that anything is Wealth which can be *bought and sold:* or which is Exchangeable: and for that reason they class mere Abstract Rights, not associated with any material substance, under the terms *Pecunia, Res, Bona, Merx,* because they can be bought and sold. And it is the same in every system of Jurisprudence

Here it is quite clear that we have got the true **Origin, Source, Cause,** or, in the language of Bacon, the **Form** of **Value:** it is **Demand.** Value is not a Quality of an object, but it is an **Affection** of the **Mind.** Value, in Latin, is **æstimatio.** The sole Origin, Source, and Cause of Value is **Human Desire:** when there is a Demand for things they have Value: when the Demand increases (the Supply being supposed the same) the Value increases: when the Demand decreases the Value decreases: and when the Demand altogether ceases, the Value is altogether gone

Boisguillebert, the morning star of Economic Science, saw this most clearly. He says—"*Consommation* (*Consumption* or *Demand*) is the principle of all Wealth." "All the revenues, or rather, all the riches in the world, consists in Consumption (*Demand*): all the most exquisite fruits of the earth, and the most precious products, would be nothing but rubbish if they were not *Consommés* (*Demanded*)"

The Italian Economists are very clear and consistent in shewing that Human Wants and Desires are the Cause of all Value. Genovesi clearly points out that the words *prezzo, pregio,*

stima, valuta, valore, are words of relation, and not absolute : and that they are not applied to Intrinsic Qualities. That though money is the apparent or proximate measure, the ultimate measure to which not only things but their price is referred, is **man** himself. Nothing has Value where there are no men : and the very things which have a low value where men are few, have a very high value where there are many people : which is the reason why things and services have a much higher Value in the Capital than in distant provinces

" Men, however, do not give Value to things or services unless they want them. Hence our wants are the first source of the Value of all things : and Price is the power to satisfy our wants." He says that nothing has Value except in relation to these Wants or Demands. He shews how Prices are always determined by Supply and Demand : and he says, " **Value** is the child of **Demand** "

So Beccaria says—" **Value** is a **substance** which measures the **Estimation** in which men hold things "

Verri shows that it is the Wants of men which give rise to commerce : and as their ideas and wants increase, so does commerce increase. Nations which increase their wants increase their power and their happiness. Desire or Demand incites man to commerce. Commerce requires Demand and abundance : Desire for the merchandise sought, and abundance to give in exchange for it : and as a nation progresses from the few and simple wants of the savage state to new wants and necessities, it must proportionally increase its annual production, so that it may have enough beyond its annual Consumption to purchase foreign goods. They then require something to ascertain the equality between what they give and what they receive. Value is a word which denotes the Estimation which men make of a thing." Verri also shews that all variations in price proceed from variations in Supply and Demand

The Physiocrates, or the first school of Economists in modern times, made all Value proceed from Demand : they showed that things which remain without Demand (*Consommation*) are without Value

Condillac is very clear and explicit on this subject. He begins his work by investigating the foundation of the Value of things,

and shows that it originates entirely from the **Wants** and **Desires** of men. Those things which satisfy some want have utility, and this **Want** or **Estimation** is called **Value**

As people feel new wants they learn to make use of things which they did not before. They give, therefore, Value at one time to things to which, at another time, they do not

Hence all Value resides in the **Mind,** and he says—"This **Esteem** is what is called **Value.**" And he shows that all variations in Value proceed from variations in Demand and Supply

Error of the Doctrine that **Labour** *is the* **Cause** *of* **Value**

12. All this is so obvious that it might seem superfluous to dwell upon it. But, unfortunately, English Economics has been overrun and infested with another doctrine, namely that **Labour** *is the* **Cause** *of* **all Value:** and nothing can be done in Economics, and especially in the Theory of Credit and Banking, until this fatal error is entirely exterminated

Locke, as far as we are aware, was the writer who originated the notion that all **Value** is founded on **Labour.** As this passage is but very little known, we must make room for it, though it is rather long

After showing that the foundation of the right of appropriating portions of the earth, and its products, by private persons originated in the **Labour** they bestowed on them, he says—

"Nor is it so strange as, perhaps, before consideration it might appear, that the Property of Labour should be able to overbalance the community of land: for it is Labour, indeed, that puts the difference of Value upon everything: and let any one consider what the difference is between an acre of land planted with tobacco and sugar, sown with wheat or barley, and an acre of the same land lying in common, without any husbandry upon it, and he will find that the improvement of **Labour** makes the far greater part of the **Value.** I think it will be but a very modest computation to say, that of the products of the earth useful to the life of man, nine-tenths are the effects of Labour: nay, if we will rightly estimate things as they come to our use, and cast up the several expenses about them, what in them is

purely owing to nature, and what to Labour, we shall find that in most of them ninety-nine hundredths are wholly to be put on the account of Labour

"There cannot be a clearer demonstration of anything, than several nations of the Americans are aware of this, who are rich in land and poor in all the comforts of life : whom nature having furnished as liberally as any other people with the materials of plenty, *i.e.*, a fruitful soil, apt to produce in abundance what might serve for food, raiment, and delight ; yet, for want of improving it by labour, have not one-hundredth part of the conveniences we enjoy : and a king of a large and fruitful territory there, feeds, lodges, and is clad worse than a day-labourer in England

"To make this a little clearer, let us but trace some of the ordinary provisions of life through their several progresses, before they come to our use, and see how much of their value they receive from human industry. Bread, wine, and cloth are things of daily use, and great plenty : yet, notwithstanding, acorns, water, and leaves, or clothing, or skins, must be our bread, drink, and clothing, did not Labour furnish us with these more useful commodities : for whatever bread is more than acorns, wine than water, and cloth or silk than leaves, skins, or moss, that is wholly owing to Labour and Industry : the one of these being the food and raiment which unassisted nature furnishes us with : the other, provisions which our industry and pains prepares for us : which how much they exceed the other in value, when any one hath computed, he will then see how much Labour makes far the greater part of the value of things we enjoy in this world : and the ground which produces the materials is scarce to be reckoned on, as any, or at most, but a very small part of it : so little, that even among us, land that is left wholly to nature, that hath no improvement of pasturage, tillage, or planting, is called, as indeed it is, waste : and we shall find the benefit of it amount to little more than nothing

"An acre of land that bears here twenty bushels of wheat, and another in America which, with the same husbandry, would do the like, are without doubt of the same natural intrinsic value : but yet the benefit mankind receives from the one in a year is worth £5, and from the other probably worth a penny, if all the

profit an Indian received from it were to be valued and sold here : at least I may truly say not one-thousandth. It is Labour, then, which puts the greatest part of the value on land, without which it would scarcely be worth anything : it is to that we owe the greatest part of all its useful products : for all that the straw, bran, bread of that acre of wheat is more worth than the product of as good land which lies waste, is all the effect of Labour ; for it is not barely the ploughman's pains, the reaper's and the thresher's toils, and the baker's sweat, is to be counted in the bread we eat : the Labour of those who broke the oxen, who digged and wrought the iron and stones, who felled and framed the timber employed about the plough, mill, oven, or any other utensils, which are a vast number, requisite to this corn, from its being seed to be sown to its being made bread, must all be charged on the account of Labour, and received as an effect of that : nature and the earth furnished only the almost worthless materials as in themselves. It would be a strange catalogue of things that industry provided and made use of about every loaf of bread before it came into our use, if we could trace them : iron, wood, leather, bark, timber, stone, brick, coals, lime, cloth, dyeing, drugs, pitch, tar, masts, ropes, and all the materials made use of in the ship that brought any of the commodities used by any of the workmen to any part of the work : all which it would be impossible, at least too long, to reckon up"

We have given this extract at length because it is probably the most elaborate Economical analysis of Price of its time : and, as far as we are aware, was the first assertion that Value is due to human Labour. The doctrine that all Wealth is the produce of Land and Labour became very common among the early thinkers on Economics. Smith constantly repeats the phrase, though, as we have shown elsewhere, he is quite contradictory to himself

Ricardo, perceiving the inconsistency of Smith's fundamental doctrine of Value, finally rejected Exchangeability as the test of Value, and adopted Labour as the Cause, or Form of Value—" In speaking, however, of Labour as being the foundation of all Value." He also maintains that if commodities were always produced by the same Quantity of Labour they would always be of the same Value

McCulloch also maintained that Labour is the Cause of all

Value—"Nature is not niggard nor parsimonious. Her rude products, powers, and capacities are all offered gratuitously to man. She neither demands nor receives an equivalent for her favours. An object which may be appropriated, or adapted, to our use without any voluntary Labour on our part may be of the highest utility, but as it is the free gift of nature, *it is quite impossible it can have the smallest Value*"

Also—"In its natural state matter is very rarely possessed of any immediate or direct utility, and *is always destitute of Value.* It is only through the Labour expended on its appropriation, and in fitting and preparing it for being used, that matter acquires Exchangeable Value, and becomes Wealth"

So Carey, the American Economist, adopts to the fullest extent the doctrine that Labour is the Cause of all Value

Now it is impossible to stir a step in this subject until this contradiction is cleared up; and we determine whether **Labour,** or **Exchangeability,** *i.e.*, **Demand,** is the **Cause** of **Value**

Let us take a few examples. The Land upon which a great city is built has enormous Value. Land, in the centre of London, frequently sells at the rate of £1,000,000 an acre. Where is the Labour there?

As we recede from the centre the Value of Land diminishes: at Charing Cross it is much less than in the City: and at Kensington much less than at Charing Cross

Moreover, Land in the same locality has very different Value according to its position. A frontage in a main thoroughfare like Regent Street, Fleet Street, Cheapside, or Cornhill, is of far more value than an equal space of ground in a back street

How are these differences of Value due to differences of Labour, when, as we have seen, there has been no Labour at all bestowed upon the Land?

As the tide of population, fashion, and wealth flows towards a locality, the ground in it rises rapidly in Value: when the tide of population, fashion, and wealth deserts a place, the ground in it falls rapidly in Value. How are these changes in the Value of Land due to variations in Labour?

The ground in the centre of London, Paris, Berlin, Vienna,

and innumerable other cities, has enormous Value. There are other places, now desolate and lonely, which were once the sites of great cities. When the chariots and the horsemen were pouring forth in multitudes from the hundred-gated Thebes, the land in it had immense Value. So, with Memphis, Nineveh, Babylon, and numberless other places. Where is their Value now? Yet the ground remains exactly the same as ever it was. If London, Paris, Berlin, and Vienna should ever come to be as Babylon and Nineveh are to-day, where would the Value of the Land be? When the future Belzoni or Layard comes from New Zealand to sketch the ruins of St. Paul's from a broken arch of London Bridge, will the ground near what was once the Royal Exchange sell for £70 the square foot?

When a fair is held in a country town persons pay a good sum for leave to erect booths and tents upon the common. At other times they would pay nothing. The Land has Value at one time and not at another. How is its Value due to Labour?

In the Midland counties of England a fine oak tree will sell for £60 or £100 as it stands on the ground. How is its Value due to Human Labour?

It is said that, in 1810, an oak tree was cut down at Gelenas, in Monmouthshire, whose bark sold for £240, and the wood for £670. How was its Value due to Human Labour?

Some time ago a whale was stranded on the shore of the Firth of Forth: it was sold as it lay on the beach for £70. How was its Value due to Human Labour?

Some short time ago it was the fashion of European ladies to pile huge masses of hair, termed Chignons, on their heads, in imitation of their swarthy sisters of Central Africa: it was then not unusual for a girl's fine head of hair to sell for £5, or even much higher sums. Was the Value of the girl's hair due to Human Labour?

Now, by the fundamental Laws of Natural Philosophy, if it could be shown that there was a single instance of Value not due to Labour, that would be sufficient to overthrow the doctrine that all Value is due to Labour: or that Labour is necessary to Value. But, instead of a single instance, there are multitudes. In fact, it may be safely asserted that not twenty per cent. of valuable things have any Labour associated with them at all

Even where Labour has been bestowed on anything which has Value, it is not the **Labour** *which is the* **Cause** *of its* **Value**; *but the* **Demand** *for it*

13. It is perfectly easy to perceive the fallacy that pervades the eloquent and elaborate analysis of Locke, which has been followed by so many writers. It is perfectly true that Labour has been bestowed on the Land: and that the Land has great Value: but it is quite easy to see that the **Labour** *is not the* **Cause** *of the* **Value** *of the* **Land**: for, suppose that the people of England were, like the Phocæans and Teians of old, to emigrate in a body, where would the Value of the Land be?

If there is a country in the world whose Value might be most plausibly said to be due to Labour, that country is Holland. "By nature a wide morass, in which oozy ilands and savage forests were interspersed among lagoons and shallows: a district lying partly below the level of the ocean at its higher tides, subject to constant overflow from the rivers, and to frequent and terrible inundations by the sea"—there are probably not ten square miles of its surface which do not owe their existence, as a habitable abode for men, to the incredible Labour of its hardy sons. And it was one of the richest spots on the face of the globe. Once, when it seemed that the last hour of the Republic had come, surrounded and overwhelmed by the forces of Louis XIV., it was seriously contemplated to emulate the example of the ancient cities, and transport the whole people to their Eastern possessions. If this desperate resolve had been carried into effect, where would the Value of the Land have been?

It is quite evident that the Land owes its Value, **not** to the **Labour** bestowed upon it, but to the **Demand** for its products; and *persons bestow their Labour upon the Land because its Products have Value.* It is the Wants and Desires of men for the products of the land which induce persons to bestow their Labour upon the land. But if persons ceased to demand these products, their value would instantly die off

And even the writers to whom the doctrine that Labour is the Cause of all Value and all Wealth is chiefly due, have contradicted themselves. Thus Smith, who at the beginning of his work fills

the minds of his readers with the notion that all Value is due to Labour, says that the vine "is more affected by the difference of soils than any other fruit tree. From some it derives a flavour which no culture or management can equal, it is supposed, on any other. This flavour, real or imaginary, is sometimes peculiar to the produce of a few vineyards: sometimes it extends through the greater part of a large province. The whole quantity of such wine that is brought to market falls short of the effectual demand, or the demand of those who would be willing to pay the whole rent, profit, and wages necessary for preparing and bringing them thither, according to the ordinary rate at which they are paid on common vineyards. The whole quantity, therefore, can be disposed of to those who are willing to pay more, which necessarily raises the price above that of common wine. The difference is greater or less, according to the fashionableness or scarcity of the wine render the competition of the buyers more or less eager. Whatever it be the greater part of it goes to the rent of the landlord. *For though such vineyards are in general more carefully cultivated than most others, the* **high price** *of the wine seems to be not so much the* **Effect,** *as the* **Cause** *of the careful cultivation*"

Now this last sentence is entirely antagonistic to the part of the work in which it occurs. Here Smith sees and acknowledges that it is *Value which is the Inducement to Labour.* He also observes that if a guinea, which is certainly the produce of Land and Labour, would exchange for nothing, it would have no Value. Thus Smith, at last, comes to **Exchangeability,** *i.e.*, **Demand,** as the real essence and principle of Value and Wealth

So, also, Ricardo, in combating Malthus' Theory of Rent, says —"It is the rise in the Market Price of Corn which alone encourages production: for it may be laid down as a principle uniformly true that the only great encouragement to the increased production of a commodity is its Market Value exceeding its Natural or Necessary Value"

So McCulloch says—"**Demand** may therefore be considered as the ultimate **Source** and **Origin** of both **Exchangeable** and **Real Value:** for the Desire of individuals to possess themselves of articles, or rather the **Demand** for them

originating in that Desire, *is the sole Cause of their being produced or appropriated*"

Thus it is clearly seen that Smith, Ricardo, and McCulloch, who are the chief writers in this country who have maintained that Labour is the Cause of, and Necessary to all Value and Wealth, have most manifestly contradicted themselves ; and, in the last quoted passage have admitted that it is Value, or Demand, which is the Inducement to Labour

We now, then, see that the true doctrine in Economics is that it is Value, or Demand, which is the Inducement to Labour. As the tribunes of the Commons said, long ago—

" Eo impendi Laborem ac periculum . . . magna præmia proponantur "

" *Labour and danger are encountered . . . because great rewards are offered* "

So says Hume—" Our passions (*i.e.*, Desires or Demands) are the only causes of Labour "

Condillac says—" A thing has not Value because it has cost much, as people suppose ; but money is spent in producing it, because it has Value "

So Whately says—" In this, as in so many other points in Political Economy, men are prone to confound Cause and Effect. It is not that pearls fetch a high price *because* men have dived for them : but, on the contrary, men dive for them because they fetch a high price "

Labour itself has no Value unless there is a Demand for it : and the products of Labour have no Value unless there is a Demand for them. The Value of the Land arises solely from the Demand of men for its products. And as this Demand, by the very physical constitution of men is permanent, the land is a source from which an annual revenue springs : and the Value of an estate in land is found by finding the present Value of all its annual products for ever

This conception may be generalised, and we may affirm that if men require any service continuously, and will pay to obtain it, the source which supplies this service, is a great Estate which produces a Revenue similar to land

Thus the Desire, or Demand of men for Law, Medicine, Surgery, Engineering, Military and Naval Services, and also Art and Literature; for professions and trades of all sorts constitutes, each of them, a great Estate, all deriving their Value from one great common principle—the Wants of mankind, and their willingness to pay for their products. And as it is this Desire, or Demand, which calls them into existence, and confers Value on them: so, a cessation of this desire, and the cessation of the willingness to pay for their products, would immediately annihilate their Value

14. Hence we see that **Demand** is the sole **Origin, Source,** or **Cause** of **Value.** It is **Demand,** or **Consumption,** and not **Labour,** which gives **Value** to a **Product.** It is not the Labour which gives Value to the Product: but the Demand for the Product which gives Value to the Labour. Hence *it is not* **Labour** *which is the* **Cause** *of* **Value,** *but it is* **Value** *which is the* **Cause** *of, or* **Inducement** *to* **Labour**

All Production is founded on Speculation. Producers find out or think of what other people want, and then they produce, or offer for sale. A man may have things he wants to sell, but if no one will buy them they have no Value. He may wish to possess things offered for sale by others, but if they do not want, and will not take in exchange, what he offers, no exchange can take place. In order to constitute an exchange two persons must each produce something, and each must want what the other produces. And it is the **Reciprocal Desire** of each for the product of the other that gives rise to an exchange. Hence the **Concurrence of two Minds** is essential to produce an exchange, or an Economic phenomenon

A constant supply of some things is wanted. Inventors hope that they may excite or create a desire: but it is no reason that people will buy because others produce: and if none want, or will buy, what is produced, such an article has no **Value.** All production, then, is founded on speculation, varying through all degrees of prudence, certainty, and risk. All producers speculate that there will not only be persons who want their products, but will want them to such a degree of intensity as to be willing

to pay a sum sufficient to remunerate them for their time and Labour

As Whately said, pearls do not fetch a high price because persons dive for them : but persons dive for them because other persons desire and demand them so much that they are willing to pay a high price for them. Which entirely agrees with Condillac's observation that things are not dear because much cost of production has been bestowed upon them; but much cost is bestowed upon producing them because other people demand and want them so much as to be willing to pay a high price for them

Hence we have these fundamental truths that **Speculation** *is the* **Mother** *of* **Production :** and also *it is* **not** *the* **Labour** *of the* **Producer** *which constitutes a thing* **Wealth,** *but the* **Demand** *of the* **Consumer** *or* **Purchaser**

Demand *confers* **Value** *on Things upon which* **no Labour** *was ever bestowed*

15. And, as we have seen, that however much Labour may be bestowed on a thing, it has no Value unless it is Wanted and Demanded : so Demand confers Value on a thing, and constitutes it Wealth, although no Labour was ever bestowed upon it

Thus it is the Demand for the ground upon which a city is built that confers enormous Value on the ground, though no Labour was ever bestowed upon it ; and it is the greater Demand which gives very different Values to spaces of ground in the same locality

It is Human Desire and Demand which alone constitutes the fruits of the earth, as well as cattle, and herds, and flocks ; as also the various kinds of timber trees, oaks, beeches, elms, teak, mahogany, fir trees, and others : **Wealth**

It is Demand which discriminates between the diamond and the rubbish it is found in, and between the pearl and its shell

So a recent lively writer, describing the splendour of the houses in some of the remote country districts of Spain, says— " Houses and splendid furniture in such places are nearly **Valueless,** because there is no one to **hire** the former or to **buy** the latter "

So, in the extract we have already given from Senior, speaking

of Personal Qualities as Wealth, he says—" They may be rendered **Valueless** by any change in the custom of the country which shall destroy the **Demand** for his services "

We have now said enough to overthrow the doctrine that Labour is the **Cause** of, or even **Necessary** to **Value**: and have shown that it proceeds entirely from **Demand**: or that Exchangeability is the sole real and true essence and principle of Value and Wealth; in strict accordance with the unanimous doctrine of ancient writers and foreign Economists

This is all that is necessary for the purposes of our present work. We must refer to what we have said elsewhere for the complete Theory of Value

Credits *or* Debts *have* Value *because they will be* paid *in* Money

16. The necessity for and the bearing of this investigation on our present subject is obvious. For if it be laid down that Labour is necessary to all Value, how could the Notes of the Bank of England, or of any other Bank, have any Value? How could a Bill of Exchange on the most solvent merchant have Value?

Now every one knows that a Credit in Bank, or a Bank Note, has Value, because the Bank will pay it in gold: a Bill of Exchange on a solvent merchant has Value because he will pay it in gold at the proper time. And the gold the banker or the merchant pays his Notes or Bills with is the Value of the Note or Bill

So Mill, who is a devotee of Ricardo, says—" An Order or Note of hand, or Bill payable at sight, for an ounce of gold, while the Credit of the giver is unimpaired, is worth neither more nor less than the Gold itself "

So the whole of the second school of Economists, Smith, Say, and Mill, class Bank Notes, &c., under the head of Circulating Capital

Smith himself acknowledges that if Money were not Exchangeable it would have no Value: as the author of the Eryxias showed

The fact is, that a Bank Note and a Bill of Exchange have Value for precisely the same reason that Money itself has Value: because they are Exchangeable. Bank Notes and Bills are ex-

changeable for Money, and Money is exchangeable for other products or services

Thus we see that so long as ideas of Value are mixed up with and founded on Labour, the subject is plunged into inextricable difficulties and contradictions. But as soon as we clearly adopt Exchangeability as the sole test of Value, and the sole essence and principle of Wealth, all difficulties and obscurities are cleared up and dispersed like a fog before the morning sun

Section III

On the General Law *of* Value: *or the* General Equation *of* Economics

17. Having in the preceding section given the Definition of Value: and found that its Origin, Form, or Cause, resides exclusively in the **Human Mind**: the last branch of our inquiry is to determine the **General Law** of **Value**: or the **General Equation** of **Economics**: that is, to discover a **Single** General Law which governs the changes in the Exchangeable Relations of **All** Quantities, whatever their nature may be, at all times and in all places

The acknowledged principles of Inductive Science show that there can be but **One** General Law of Value. We have seen that there are **Three** distinct species of Economic Quantities: and we have generalised all the Fundamental Concepts of Economics to grasp all these Quantities. These three orders of Quantities can be exchanged in **Six** different ways. Our present object is to investigate a General Equation which shall be applicable to all the **Six** species of exchanges indifferently. The Law which governs the Exchangeable Relations of Material Products must equally govern the Exchangeable Relations of Debts

Suppose we make £ the general symbol of an Economic Quantity, *i.e.*, of anything whose Value can be measured in Money —and representing these various species of Quantities under the General Symbol £, we may say that there are in any country Quantities of this sort—

£546,497,231
£347,879,261
£225,430,221
&c. &c. &c.

Now, we affirm, by virtue of the principle of the *Continuity of Science*, and of the great Algebraical doctrine of the *Permanence*

of Equivalent Forms, that whatever can be proved to be true Economically of any one of this series of Quantities must be true of them all. No one looking at the series of Quantities placed above could tell of what species they were. Some may be land, some corn, some minerals, some ships, some money, some **Credit** or **Debts,** some labour, some shares, or copyrights, or patents, and multitudes of other things. Now there can be but **One Cause** of Value for them all: and we have shown that **Demand** is the Single General Cause of the Value of all Economic Quantities

Having, then, obtained these independent Economic Quantities, the whole purpose and object of the Science is to discover the **Single General Law** which governs the variations of their Exchangeable Relations. It is clear, by the principle of the *Continuity of Science,* and the analogy of all other Physical Sciences, that however varied and complicated the different Phenomena of Value may be, there can, by no possibility, be more than **One General Law** of **Value,** or a **Single General Equation** of **Economics:** whatever it may be

18. Now, let A and B be any two Quantities whatever, supposed perfectly general: it is quite clear that their Exchangeable Relations are contained in the following Limits—

$$\begin{aligned} \infty\,A &= 0\,B \\ \&c. &= \&c. \\ 2\,A &= \tfrac{1}{2}\,B \\ A &= B \\ \tfrac{1}{2}\,A &= 2\,B \\ \&c. &= \&c. \\ 0\,A &= \infty B \end{aligned}$$

The meaning of which is simply this—Let the Exchangeable Relation between A and B gradually and continuously change from where the greatest possible Quantity of A will exchange for the least possible Quantity of B, to where the least possible Quantity of A will exchange for the greatest possible Quantity of B

Now the *Law of Continuity* says that a Quantity cannot pass from one amount to another by any change of conditions, without

passing through all intermediate degrees of magnitude according to the intermediate conditions

Hence we may affirm, by virtue of the *Law of Continuity*—

1. *That if it can be indubitably proved that* **Any** *particular Law holds good at any one point in the range of Prices, that same Law must necessarily hold good at* **All** *points throughout the whole range of prices*

2. *That as the Symbols A and B are perfectly general, if any Law whatever can be proved to hold good in the Variation of the Exchangeable Relation of* **Any** *Two Quantities whatever, that Law must necessarily hold good in the Exchangeable Relations of all Quantities whatever*

Thus, by the Law of Continuity, we are enabled to affirm that—

If any Law whatever can be proved to be true at any one point in the range of Prices, between any **Two** *Quantities whatever, that same Law must be necessarily true at* **All** *points in the range of Prices, and between* **All** *Quantities whatever*

And, as a necessary corollary from the preceding, we may affirm that—

If any Law whatever can be proved **Not** *to be true with regard to the Relation of* **Any** *Two quantities whatever, that Law cannot be a General Law of Economics*

Furthermore, as it is a universally acknowledged principle of Natural Philosophy that that Law only is the true one which explains **all** the phenomena, it may be laid down as an unquestionable truth in Economics that—

If two or more Forms of Expression will explain or account for any phenomena regarding Price, or the Change of Price, that Form of Expression only is to be adopted as the true one which explains all the phenomena in the science, and not that individual case, or class of cases, only

19. We now see the meaning of saying that Economics is a Physical Science. Because there being *Three* orders of Exchangeable Quantities, and therefore *Six* species of Exchanges, the object of the Science is to determine the *Laws of the Phenomena* of these Exchanges—that is, to determine the Laws which govern the changes in their numerical Relations of Exchange. Hence we

have a new order of Variable Quantities: and the Laws which govern this new order of Variable Quantities must be in strict harmony with the Laws which govern the Relations of Variable Quantities in general. The same general principles of reasoning which govern the varying relations of the stars in their courses, must govern the varying relations of Economic Quantities

The fact is, that Astronomy is the Physical Science which is the type of Economics. The fundamental problem of Economics is identically the same as the fundamental problem of Astronomy. The Astronomer sees a vast number of heavenly bodies moving in all sorts of directions—sometimes advancing, sometimes apparently stationary, sometimes retrograding—and his object is to discover a single General Law which accounts for and governs all these varying relations. So the Economist sees a multitude of Quantities constantly changing their numerical relations to each other, and his object is to discover a single General Law which governs all these varying relations. Economics, like Astronomy, is a pure Science of Ratios

Lord Lauderdale's Law *of* Value

20. The fundamental problem of Economics, then, is this—Let any number of Economic Quantities of any form have a given Relation to each other at any given instant—to discover the Law by which any change in their Exchangeable Relations will take place

Lord Lauderdale in a work quoted by Ricardo, says that of two Quantities which may each vary, if we suppose the variation to take place in one of them first, the other remaining the same, its value would be influenced by **Four** causes—

It would **Increase** in **Value**—

1. From a **Diminution** in **Quantity**
2. From an **Increase** of **Demand**

It would **Diminish** in **Value**—

1. From an **Increase** of **Quantity**
2. From a **Diminution** of **Demand**

Now as the Variation of the other Quantity will be influenced

by the same **Four** Causes: it is quite clear that the Variation of **both** Quantities will be influenced by **Eight** Independent Causes: and if these be connected in the Form of an Algebraical Equation, that will manifestly be the true **General Law** of *Value*: or the true **General Equation** of **Economics**

This General Equation must manifestly comprehend the whole Science of Pure, or Analytical Economics: and as it is in the form of a fraction containing no less than Eight Independent Variables, it at once shews the extremely complicated nature of the science

All Economists admit that the Law of Supply and Demand, of which the above extract from Lord Lauderdale is the full expression, is true when the prices of things are very low: they also admit that it is true when the prices of things are very high: it is therefore admited to be true at the **Extremes** of prices: and therefore it is manifest by the *Law of Continuity* that it must also be true at all intermediate points in the range of prices: that is, it must be universally true in all cases

The **General Equation** of **Economics** is therefore a **Compound Ratio** of a very complicated nature: and to apply it in particular cases requires a profound knowledge of the circumstances: but yet it is demonstrably true: and the whole science must be constructed taking that Equation as the basis

In obtaining this General Equation, we have followed the method usual in all Physical science. We have obtained the Independent Variables, and they are connected by a General Law or Formula. This insures Certainty to the Science: but it is in the last point that the real difficulty arises, namely, in giving Precision, or Numerical amounts, to the Co-efficients. It is difficult, probably impossible, to say what numerial variations in Supply and Demand produce definite variations in Value. This has been attempted in some cases, as in that of corn, but it is manifestly impossible to obtain exact numerical data: and, in fact, though the same General Law is true, the same absolute variations in Supply and Demand of various quantities will produce great differences in the variations of their numerical Values

It is this difficulty, or rather entire impossibility, of giving exact numerical value to the co-efficients that makes many persons suppose that it is impossible to make Economics an exact science. It is sometimes supposed that for a science to be an "exact" one, it is necessary that its laws should be capable of exact *Quantitative* statement. This, however, is an error which has been specially noticed by Comte, who well points out the difference between *Certainty* and *Precision* in science. To constitute an exact science it is not necessary that its laws can be ascertained with numerical precision, but only that the **Reasoning** be **exact,** or certain. He says that a dangerous prejudice has sprung up : that because the precision of different sciences is very unequal, that their certainty is so too. This tends to discourage the study of the most difficult : Precision and Certainty are perfectly distinct. An absurd proposition may be very precise: as for instance that the angles of a triangle are equal to three right angles. On the other hand, a certain proposition may not be precise, as that a man will die. Hence, although the different sciences may vary in precision, that does not affect their certainty. This observation applies very forcibly to Economics. Some persons are apt to despise it because it does not bring out its results with the same numerical precision as those of Mathematics. This, however, is a grievous mistake. In Economics the Causes of phenomena can be ascertained with absolute certainty : and if we want to produce any required effect, the method of producing it can be pointed out with absolute certainty. This is all that is necessary to constitute an *exact* science : because the method of producing the result being pointed out with Certainty, we have only to put it in force until the required result is produced

In considering the General Equation of Economics, we see the application of Bacon's aphorism, "that which in Theory is the Cause in Practice is the Rule." No other Quantities but Demand and Supply appear on the face of the Equation : we therefore learn that no other Causes influence Value, or changes of Value, except **Intensity of Demand** and **Limitation of Supply**. We learn that neither Labour nor Cost of Production can have any *direct* influence on Value : and that if they do so *indirectly*, it can only be by and through the means of affecting the Demand or the Supply : and that no change of Labour or Cost

of Production can have any influence on Value unless they produce a change in the relation of Supply and Demand

By this means we are enabled to create a rigorously *exact* Theory of Economics : and by reverently following the precepts of the mighty prophet of Inductive Philosophy, and the examples of the immortal creators of the various Inductive Sciences, it is seen that Economics as a Moral Science is fitted to take rank by the side of Mechanics and Optics as a great **Positive Inductive Physico-Moral Science**

CHAPTER III

THE THEORY OF THE COINAGE

1. Having in the preceding chapters investigated the fundamental Concepts of the Science of Economics, which are necessary to understand the subject of **Credit** and **Banking**: and ascertained the General Law which governs the varying relations of Economic Quantities: our next step is to investigate the Theory of the **Coinage.** Economics is the Theory of Value in general; but universal custom has found the convenience of expressing Value in one medium; viz., **Money,** or **Credit.** These are the sole Economic Quantities with which Banking deals. We shall, therefore, in this chapter investigate the Theory of the **Coinage**: and in the following one the Theory of **Credit**

2. We have in the first chapter explained the circumstances out of which the necessity for Money arose, and shown that many substances have been used by different nations for this purpose: but that Metal has advantages superior to any other substance; and of Metals, Gold, Silver, and Copper have been chiefly preferred. Gold and Silver in a perfectly pure state, however, are far too soft to be used for this purpose: and it is necessary to mix some other metal with them to harden them, which is called Alloy. By a chemical law, when two metals are mixed together, the mixture is harder than either of the metals in a pure state

Gold and Silver in the mass are called **Bullion**; but as the laws of all countries which use Gold and Silver as Money define the quantity of alloy which is to be used with the pure metal, we shall henceforth use the word **Bullion** to mean gold or silver in the mass mixed with such a proportion of alloy as is ordered by law, so as to be fit to be made into Money

3. The purity of Gold is measured by 24th parts, termed **Carats;** and ever since the 6th Edward VI. (1553) the Bullion used for the gold coinage has been 22 carats of pure gold and 2 carats of alloy. This is called **Crown Gold.** The standard of Silver Bullion was fixed by William the Conqueror at 11 ozs. 2 dwts. fine: or 222 dwts. of pure silver, to 18 dwts. of alloy: and except during a short period of confusion, from the 34th Henry VIII. (1543) to Elizabeth, has never been departed from. It is called the "Old right standard of England," or "**Sterling;**" and as the Sovereigns of England, though they reduced the weight of the Coin, never, with the slight exception just mentioned, tampered with the purity of the metal, Sterling came to signify honest and true, or to be depended upon

In France, and those countries which have adopted decimal coinage, Bullion is made of 9 parts fine metal and 1 part alloy: but it is found in practice that the English proportion gives greater durability to the metal, and, therefore, is better for a coinage

4. Some nations have used simple Bullion as money: but the merchants of those nations were obliged to carry about with them scales and weights to weigh out the Bullion on each occasion. This was usual among the Jews. In some countries it was necessary both to weigh and assay the Bullion at each operation, which was, of course, a great impediment to commerce. Other nations adopt a more convenient practice. They cut the Bullion into pieces of a certain definite weight, and affix a public stamp upon it, to certify to the public that these pieces of Bullion are of a certain weight and fineness. These pieces of Bullion with a public stamp upon them, to certify their weight and fineness, and called by a publicly recognised name, and intended to be used in commerce without further examination, are called **Coins**

5. The inconvenience of using masses of Bullion as money is so obvious, and the expedient of cutting it into pieces of definite weight and fineness, seems so simple, that we should naturally have expected that it must have been quickly invented by those nations who first began to use Gold and Silver Bullion as money. This, however, was certainly not the case. Silver and Gold were

used as money for ages before coining was thought of: and there is every reason to believe that coining was invented by a people who, before the invention, did not use gold and silver as money; and coining was practised by them for centuries before it was adopted by nations who had used these metals as money for ages

This stamp or certificate, of course, in no way affects the Value of the metal, or the Quantity of things it will exchange for. Its only object is to save the trouble of weighing and assaying the Bullion in commercial transactions. Nor can the *Name* of the Coin in any way affect its *Value.* Values, it is true, are estimated in the number of these pieces of Bullion, or Coins: but it is necessarily implied in the bargain that these Coins contain a definite quantity of Bullion

It is also perfectly evident that if this process of stamping Bullion, and so turning it into Coin, is done free of all expense: at the will of any one who chooses to present Bullion and demand to have it stamped: and also without any delay: the Value of metal as Bullion must be exactly the same as the Value of the metal as Coin

If, however, a charge is made for the workmanship; or if any tax is levied on changing the metal from one form into the other; or if any delay takes place in doing so, there will be a difference between the Value of the metal as Bullion and as Coin, equal to the charge for workmanship, the tax, and the amount of interest accruing during the period of delay

These, however, are all fixed or constant quantities, which may be ascertained, and they form the limits of the variation of the Value of the metal in one form from its Value in the other form

In the following remarks we shall assume that there is no charge for the workmanship, no tax, and no delay in doing it: no obstruction, in short, of any form to changing the metal from one form to the other

Upon these assumptions, then, we have this fundamental principle of the Coinage—

Any quantity of Metal in the form of Bullion must be of exactly the same Value as the same quantity of Metal in the form of Coin

In the case of the Coinage of England, no charge of any sort is made for coining Gold Bullion: but as a considerable delay

may take place before any one who brings Bullion to the Mint can have it coined, the 7 & 8 Vict. (1844), c. 32, s. 4, enacts that every person may take standard Bullion to the Bank of England, and that the Bank shall be obliged to give him Notes to the amount of £3 17*s.* 9*d.* for every ounce of such Bullion. And as the holder of Notes may demand legal coin for them, at the rate of £3 17*s.* 10½*d.* per ounce, there is thus practically a difference of 1½*d.* per ounce between Gold Bullion and Gold Coin

6. In the times of the Homeric poems there was certainly no money in use. And the words significative of wealth in Homer give no preference to gold and silver above other things. On the contrary, they are comparatively seldom mentioned. The Homeric words expressive of wealth more frequently refer to cattle, or horses, or agriculture. Thus we have πολύρρην, πολυβούτης, πολύϊππος, φιλοκτέανος, πολυπάμων, ἄφνειος, πολυκτήμων, πολυλήϊος. In Iliad vii. 180, and xi. 46, are almost the only instances in which gold is especially alluded to as Wealth, πολυχρύσοιο Μυκήνης. When the Greek and Trojan leaders send spies to discover the plans of the enemy, neither of them promises money as a reward. Nestor, Iliad x. 215, promises the successful spy a black ewe with its young, a matchless gift ; and Hector, x. 35, promises on his side a chariot and a pair of horses

Most authorities consider that the Homeric poems were written about the ninth century B.C. ; though many would place their origin, at least, at a much more remote date. At that period, therefore, there was no money of any sort in Greece, nor were gold and silver ever referred to as measures of value ; when the convenience of referring things to a common measure of value was first thought of, oxen were used for that purpose, as we have seen in the previous chapter. But some time after the Homeric poems, though we have no means of conjecturing when, a money of a curious nature came into general use throughout Greece. Large iron or copper nails, called ὀβέλισκοι, of such a size that six of them constituted a handful, were used as money

In the eighth century B.C. Argos was the most powerful State in Greece, and was the metropolis both of the Peloponnesian and Asiatic Dorians. At this period Pheidon of Argos was the most powerful sovereign of Greece, and held the iland of Ægina in his

dominion. The Dorians carried on a very extensive commerce with the Phenicians, and Pheidon adopted a system of weights from them, which were afterwards called the Æginæan. At the same time he replaced the clumsy iron and copper nails in use as money by a silver coinage. He struck a coinage of silver to represent the value of a handful of these clumsy nails: hence it was called Δραχμή. Hence the standard unit of the Grecian coinage was always called a drachma, and the smaller coins were ὄβελοι. Pheidon collected a number of these iron and copper nails, and laid them up in the Temple of Juno, at Argos, as a curiosity

The Spartans, probably out of jealousy of the Argives, steadily resisted the use of silver money, and adhered to the use of their old iron nails

Herodotus says that the Lydians were the first nation who coined money of a mixture of gold and silver. This mixture was called ἤλεκτρον, and was composed of different proportions of gold and silver, but usually three parts of gold to one of silver. The coins of the western States of Asia were of this material. There are several of these electrum coins in the British Museum

On the Meaning of the **Mint Price** *of Gold and Silver*

7. As the very purpose of coining is to certify that the pieces of Bullion are of a certain definite weight and fineness, it is evident that a fixed quantity of Bullion, such as a pound weight, must be divided into a fixed number of coins

The **Number of Coins** *into which a given quantity of Bullion is divided by Law, is called the* **Mint Price** *of that quantity of Bullion*

The Mint Price of Bullion is thus simply the amount of coin which is equal to any quantity of Bullion, weight for weight

By the Law at present in force forty pounds weight of standard Gold Bullion are divided into 1,869 coins, called Pounds or Sovereigns ; hence one pound weight of Gold Bullion is coined into £46 14*s.* 6*d.* : or, as the value of Gold is estimated by the ounce, one ounce of Gold Bullion is coined into £3 17*s.* 10½*d.*: and this is termed the **Mint Price** of Gold

The legal weight of the Pound or Sovereign is 5 dwts. $3\frac{17}{22}$ grs. containing $113\frac{1}{11}$ grains of pure gold. Sovereigns which fall

below 5 dwts. $2\frac{3}{4}$ grains, and half Sovereigns which fall below 2 dwts. $13\frac{1}{2}$ grains, cease to be legal tender

In the time of William the Conqueror the pound weight of Silver Bullion was coined into 240 pence : hence the Mint Price of Silver was £1 per pound ; but in the time of Elizabeth the pound weight of Silver Bullion was coined into 744 pence : or the ounce weight of Silver was coined into 62 pence : hence, as 240 pence are still called a Pound, the *Mint Price* of Silver Bullion was £3 2*s.* per pound, or 5*s.* 2*d.* per ounce

To alter the Mint Price of Bullion is merely an expression which means an **Alteration** *of the* **Legal Weight** *of the Coinage*

To suppose that the Mint Price of Bullion could vary is manifestly as great an error as to suppose that a hundredweight of sugar can be a different weight from 112 separate pounds weight of sugar ; or that any quantity of wine in a hogshead could differ in quantity from the same quantity of wine in bottles ; or that a loaf of bread could alter its weight by being cut up into slices

It is not an Economic Error to **fix** *the Mint Price of Bullion*

8. We must now say a few words with respect to an error which is by no means infrequent. It is now acknowledged by every one that it is a great Economic error to *fix* the Price of any articles. It used formerly to be the custom to fix wages and the prices of various commodities ; but such attempts have long been abandoned as futile and mischievous. It is sometimes contended that it is an equal error to *fix* the price of Gold. But those who affirm this, overlook a very important consideration. The word "*Price*," except in the single instance of "*Mint Price*," always denotes the quantity of an article which is used as a measure, which is given for another article of a *different* nature. Thus we say that the Price of a bushel of corn is 6*s.* ; where the Silver, the substance in which prices are measured, is of a different nature from the corn. But in the expression " Mint Price " of Bullion, it always means the value of Bullion in coin of the *same* metal. Thus the Mint Price of Gold Bullion means its weight in *gold* coin ; the Mint Price of Silver Bullion means its weight in *silver* coin.

Hence, by the very definition, the Mint Price of Gold Bullion merely means the identical quantity or weight of Gold Bullion in another form : and by the very nature of things the Mint Price of Bullion is a fixed quantity. If the law requires an ounce of gold to be coined into £3 17*s.* 10½*d.*, that amount of coin must be exactly of the same value as an ounce of gold, no matter whether gold becomes as plentiful as iron or as scarce as diamonds; for that quantity of coin is always exactly equal to an ounce of gold ; whatever be the scarcity or the abundance of Bullion. The value of gold may vary with respect to other things ; it may purchase more or less bread, or wine, or meat, at one time than another ; but it is absolutely impossible that an ounce weight of gold in the form of coin can differ in value from an ounce weight of gold in the form of Bullion. To suppose that it could, would be as irrational as to suppose that because bread became very abundant or very scarce, a loaf of bread could differ from itself in weight when cut up into slices, or that a cask of wine could differ from itself when drawn off into bottles

The Mint Price of Gold, therefore, is nothing more than a public declaration of the weight of metal the law requires to be in the Coin. An alteration of the Mint Price of Bullion means an alteration in the standard weight of the Coin, and would be the same thing in principle as an alteration in the standard yard measure. Those who ridicule the idea of having the Mint Price of Gold fixed, should, to be consistent, ridicule the idea of having the standard yard measure fixed

On the Meaning of the **Market Price** *of Gold and Silver*

9. The Mint Price of Bullion is, as we have seen, simply the number of Coins into which a certain quantity of Bullion is coined ; consequently, so long as the coins continue of their full legal weight, they are always of the value of that quantity of Bullion. But when Coins have been some time in circulation they must necessarily lose some of their weight from the wear and tear of daily use, even if they be not subjected to any bad practices such as clipping, which used to be done to a great extent formerly in this country. But these coins may circulate for a considerable time in a country, and lose a good deal of their weight, without

losing their value. People were so accustomed to the sight of a particular coin, that unless they were money dealers, they did not stop to inquire too curiously whether it were of the proper weight or not. In fact, when coins have been some time in use, few people know what their legal weight is. Many, for instance, do not associate the idea of a pound with any particular weight of Bullion ; and thus, in exchange for products and services, coins may pass at their nominal value long after they have lost much of their weight ; as Posthumus says, in *Cymbeline*—

> " 'Tween man and man they weigh not every stamp,
> Though light, take pieces for the figure's sake "

But when Coins are given in exchange for Bullion the case is different. The Value of Bullion is measured weight for weight with Coins ; consequently, if the Coins have lost their legal weight, *a greater number* of them must be given to purchase a given amount of Bullion than if they were of full weight. Thus, if the Mint Price of Silver is 5*s.* 2*d.* per ounce, that quantity of Coin ought by law to weigh an ounce ; then, if the coins have lost their proper weight, it is clear that *more* than 5*s.* 2*d.* must be given to buy an ounce of Bullion. It might, perhaps, take 6*s.*, or even more, to buy an ounce of Bullion

The quantity of coin at its full legal weight which is equal in weight to a given weight in Bullion, is called its **Mint Price** ; but the quantity of the *current* coin, which is actually equal to it in weight, is called the **Market Price:** and as, if the coins have lost their legal weight, *more* of them must be given than if they are of full weight, the Market Price will apparently be higher than the Mint Price, and this is called a *Rise of the Market Price above the Mint Price*

Suppose that at any time the Mint Price of Silver were 5*s.* 2*d.* an ounce : and the Market Price were 6*s.*; this would merely mean that six shllings weighed no more than 5*s.* 2*d.* ought to do ; and therefore that the current coinage is deficient of about $\frac{1}{6}$ of its legal weight. Thus, in reality, it is clear that the rise of the Market Price is due to the **Depreciation** of the Coinage

Hence we obtain this fundamental law of the Coinage—*When the Market Price of Bullion rises above the Mint Price, the Excess is the Proof and the Measure of the* **Depreciation** *of the Coinage*

In fact, the apparent rise of the Market Price of Bullion is due to exactly the same cause as has made the Mint Price of Silver apparently rise from £1 in the days of William the Conqueror to £3 2*s.* in the present day. It is merely that the same quantity of Bullion is cut into a greater number of pieces; and, consequently, each piece must be proportionably diminished in weight, or depreciated

The Market Price of Bullion could never fall below the Mint Price, unless there were more Bullion in the coin than there ought to be; and in such a case the difference of the Market Price below the Mint Price would of course indicate the excess of the coin above their legal weight

If a change takes place in the relative Value of the Gold and Silver Coins, to determine whether it is due to an **Alteration** *in the Value of the two Metals, or to a* **Depreciation** *of the Coinage*

10. The considerations we have presented will enable us to solve a question of great practical importance. When both metals were used concurrently as Money, the value of the silver coinage used to change with respect to the gold. Thus Guineas were originally coined to be of the value of 20*s.* in silver: but, in the reign of William III., guineas rose to 28*s.* and 30*s.*: and at the same time Silver Bullion rose from 5*s.* 2*d.* to 7*s.* an ounce. One party stoutly contended that this was due to the scarcity of silver. Now this assertion was absurd on the face of it; because if silver had become very scarce as compared to gold, it is quite clear that silver would have *risen* as compared to gold, and not *fallen*. That is, instead of guineas being worth 28*s.*, they ought to have been worth less than 20*s.* From the figures given above, this assertion was self-contradictory: because, as compared with gold, silver had apparently *fallen* in value: and, as compared with silver money, it had apparently *risen* in value

But as the variation might proceed either from a *Diminution in Value* of Silver as compared to Gold: or from a *Depreciation* of the Silver Coinage: we are enabled to devise a test which will enable us to decide to which of these causes it was due

It is quite clear that a *Diminution in the Value* of the coin

cannot produce any difference between the Mint Price and the Market Price of Bullion : because, by the very meaning of the word Mint Price, however plentiful or however scarce Silver may be, an ounce of it in coin must always be exactly equal in weight or value to an ounce of it in Bullion

On the other hand, a *Depreciation* of the coinage must inevitably produce a rise in the Market Price of Bullion above the Mint Price : because, however plentiful or scarce Bullion may be, $\frac{3}{4}$ of an ounce of it in coin can never be equal in weight or value to an ounce of it in Bullion

The case may be shortly stated thus—Guineas may rise to 28*s.* in silver, either from a *Diminution in the Value* of Silver : or from a *Depreciation* of the Silver Coinage. What is the test ? It is to be found in the Market Price of Silver. If the Silver Coinage is Depreciated, the Market Price of Silver will rise above the Mint Price : if it is a mere Alteration in the Value of Silver, it will not

Evidently, however, both circumstances may take place. There may be an Alteration in the Value of the metals as well as a Depreciation in the Silver Coinage at the same time. And it is quite easy to devise a test in such a case ; because the Depreciation in the Silver Coinage is measured by the difference between the Market and the Mint Price of Silver : and thus the Value of the Coinage being rectified, it is quite easy to see whether it has changed in its relation to Gold

On **Gresham's Law** *of the* **Coinage**

11. We have now to notice a Law of fundamental importance in the Theory of the Coinage

Aristophanes first noticed the fact at Athens that when a debased Coinage was issued along with a good Coinage, the good Coins all disappeared from circulation, and the debased ones alone remained

This fact, which has been invariably observed in all countries and ages, was long the puzzle of financiers and statesmen. Formerly the Coinage in this country used to suffer very much from clipping and other bad practices. Repeated attempts to remedy the evil were made by issuing new Coin from the Mint without

withdrawing the debased Coin ; but all these efforts were unavailing : the good Coins invariably vanished from circulation, and the bad ones alone remained. Sir Thomas Gresham first explained the cause to Queen Elizabeth ; hence we have called it **Gresham's Law** of the Coinage

This Law is well expressed in an old pamphlet, thus—

"*When two sorts of Coins are current in the same nation, of like Value by denomination, but not intrinsically, that which has the least Value will be current, and the other as much as possible hoarded,*" or exported. Which may be expressed more shortly thus : *Bad money always drives good money out from circulation*

The reason of this is plain. If full-weighted and depreciated Coins are allowed to circulate together, one of two effects must necessarily follow. Either those persons who have commodities to sell will make a difference in their nominal price according as they are paid in good or in light coin ; that is, the light coin will be at a discount as compared with the good coin : or if there be a law to prevent this, and to make both to pass at the same nominal value, every one will endeavour to discharge his debt at the least possible expense. He will always try to pay his debts in the light coin. As values are always estimated by the weight of the metal, a law which declares that light coin shall be of the same value as heavy coin, is as great an anomaly as a law to declare that in Arithmetic three shall be equal to four. But the consequence is plain : if the Law of this country declares that four ounces of silver shall be of the same value as three ounces, the possessors of the light coins always pay them away in preference to the heavy ones, and Bullion dealers collect all the full-weighted coins they can, and export them to foreign countries, where the coin passes at its full value. Thus the good coin quickly disappears from circulation, and the bad alone remains

Moreover, no one will bring Bullion to be converted into Coin. During the degraded state of the Silver Coinage during the last century, the Market Price of Silver always exceeded the Mint Price. Smith says that the Market Price of Silver ranged from 5*s.* 4*d.* to 5*s.* 8*d.* per ounce before the recoinage in 1774 ; and the second Report of the Lords' Committee of Secrecy, in 1797, says—"But as the Mint Price of Silver Bullion has been, during

the whole of the present century, considerably less than the Market Price of this precious metal, *the Silver Bullion imported could not be converted into Coin*, but, having left a quantity sufficient for the use of our manufacturers, must have been again exported, and did not contribute in the smallest degree to augment the Coin of this kingdom"

It is from this principle that a Paper Currency is invariably found to expel a Metallic Currency of the same denomination from circulation. And to show the generality of the principle, it was found in America that when a depreciated Paper Currency had driven all the Coin out of circulation, and a still more depreciated Paper Currency was issued, the more depreciated paper drove out the less depreciated paper from circulation

What is a **Pound** *?*

12. Sir Robert Peel once asked the question, "What is a Pound?" and he found many who could give him no answer. We have now to explain how a certain weight of Gold Bullion has come to be called a **Pound**

The original Measure of Value in all the countries of Western Europe, France, England, Scotland, Italy, Spain, was the Pound weight of Silver Bullion. No coin of this actual weight was ever struck: but the Pound weight was divided into 240 coins called Pence, *Denarii;* twelve of these Pence were called a Shilling, or *Solidus;* and, therefore, 20 Shillings, or *Solidi,* actually weighed a Pound of Silver Bullion

Now let us denote the Pound weight of metal, in the form of Bullion, by the symbol—lb: and the Pound weight of metal, in the form of Coin, by the symbol—£; then we have—

240 pence = 20 shillings = £1 = 1 lb

Now, if the Pound weight of metal were divided into more than 240 pieces, it is clear that the greater number of pieces would still be equal to the Pound in weight: and if we denoted 240 pieces by the symbol—£, irrespective of their weight, we should have the 1 lb = £1 + the number of pieces above 240

Now this is what has been done in the Coinage of all the countries above-mentioned. The sovereigns of these various

countries were frequently in want of money to pursue their various extravagances. As they could not increase the quantity of the metal, they adopted the fraudulent plan of surreptitiously cutting the Pound weight of Bullion into a greater number of pieces. But they still called them by the same name. By this means they gained an illusory augmentation of wealth. As they could not increase the quantity of the metal, they, at various periods, *falsified the certificate*, while they still called the Coins by the same name. Thus the quantity of Bullion in each penny was diminished

The consequence of this was manifest. As 240 pence were still called a Pound in money, or £, whatever their weight was : and as more than 240 pence were coined out of the Pound weight of Bullion, or lb.: the £, or Pound of metal in Coin, began to vary from the lb. or Pound of metal in Bullion. Edward I. began this bad practice in 1300, and coined 243 pence out of the Pound weight of metal : in 1344 Edward III. coined 266 pence out of the Pound of metal : in 1412 Henry V. coined the Pound into 360 pence : and so it gradually crept up, until Elizabeth, in 1601, coined the Pound weight into 744 pence

Thus we have manifestly—

744 pence = 62 shillings = £3 2*s.* = 1 lb

As there are 12 ounces in one Pound weight of Bullion, it is evident that each ounce was coined into 62 pence ; and as the value of Bullion is measured by the ounce, the Mint Price of Silver was said to be 5*s.* 2*d.* the ounce

In Scotland this Depreciation of the Coinage began about the same period as in England, but it proceeded to much greater lengths. In 1306 Robert Bruce coined the Pound weight into 252 pence ; in 1451 James II. coined the Pound weight into 760 pence, or £3 4*s.* ; and this Depreciation was increased until at last, in 1738, the Pound weight was coined into 8,928 pence, or £37 4*s.* : and thus the Pound Scots became equal to twenty pence

In France and Italy the Depreciation proceeded twice as far as in Scotland : the French Livre and the Italian Lira became at last only equal to 10*d.* The French livre, which is now called a franc, has been adopted as the basis of the decimal system of

coinage ; and the original *solidus* has now dwindled to the *sou*, or halfpenny

13. Henry III. endeavoured to introduce a Gold Coinage, but it failed. In 1344, however, Edward III. reintroduced it, and since then Gold has been permanently coined in England. But the Gold coins were always ordered to circulate at a fixed ratio with respect to Silver : and as the ratio fixed by the Mint seldom agreed with the ratio of gold and silver in the open market of the world, the Gold Coinage constantly disappeared, in accordance with Gresham's hitherto undiscovered law. In the reign of Charles II. the African Company brought home a large quantity of Gold from the Guinea coast. He coined this Gold into pieces which he called Guineas, which were intended to be of the value of 20*s.* in Silver, so as to represent the Pound. But the Mint rating did not correspond with the Market Value of Gold and Silver, and the Silver Coinage became exceedingly debased, so that Guineas rose to 28*s.* and 30*s.*, and rapidly disappeared. This was to a certain extent rectified by the great recoinage of the Silver Money in 1697 : but still a considerable error prevailed. In 1717, Newton, Master of the Mint, reported to Parliament that the true Value of the Guinea was 20*s.* 8*d.* in Silver. Nevertheless, Guineas were declared to be current at 21*s.* ; and then, in the language of the Mint, Gold was fixed at £3 17*s.* 10½*d.* per ounce

Gold and Silver Coin were then declared to be legal tender for debts to any amount. But as Gold was overrated by 4*d.* in the £, and Silver was underrated by the same amount, merchants, in the course of the last century, universally adopted the plan of paying their debts in Gold, in preference to Silver, as being the cheaper medium. And, in accordance with Gresham's Law, the Silver coins were exported, as being below their true value in this country. Gold thus became the recognised measure of Value in England, though the exchanges were reckoned in Silver : and for exactly the opposite reason, Silver became the recognised measure of Value in France

At the great recoinage in 1816, this custom was adopted as Law : and Gold was declared to be the only legal measure of

Value and legal tender to an unlimited amount: and the Sovereign was struck to represent the value of 20*s.* in Silver, or the £

14. Ever since the time of Charles II. the coinage of Gold has been free to the public: but by the Act relating to the coinage in 1816, the coinage of Silver and Bronze, is retained in the hands of the Government. In order to obviate the effect of Gresham's Law, the value of Silver is artificially raised. Since 1816 the Pound weight of Silver has been coined into 66 shillings; but four of these are retained for the expenses of coinage: and the 62 lighter shillings are declared to be of the same value as the previous heavier ones. Thus 20 of them are declared to be equal in value to the Sovereign: and thus their value is artificially raised about 6 per cent. But to prevent injustice being done, they are not legal tender for any sum above 40*s.*: it having been intended to have made the Double Sovereign the monetary unit

The Bronze coins are only worth about one-fourth of their nominal value: pence and halfpence are only legal tender for the value of one shilling: and farthings to the value of sixpence

CHAPTER IV

THE THEORY OF CREDIT

Preliminary Remarks

WE have now arrived at the subject matter of this Work—the exposition of the great System of **Credit** and **Banking**, the marvel of modern Commerce. What the Steam Engine is in Mechanism : what the Differential Calculus is in Mathematics : that is **Credit** in Commerce

Daniel Webster, the eminent American Jurist and Statesman, truly said—" **Credit** is the vital air of modern commerce. *It has done more, a thousand times, to enrich nations, than all the mines of all the world.* . . . . Credit is to Money what Money is to articles of Merchandise. . . . . It is very true that Commercial Credit, and the system of Banking, as a part of it, does furnish a substitute for Capital "

So, also, an able French writer, M. Gustave du Puynode, says—" However fruitful have been the mines of Mexico and Peru, in which, for a long time after Columbus, seemed buried the fortunes of the world, there is yet a discovery more precious for humanity, and which has already produced more Wealth than that of America : that is, the discovery of **Credit** : a world altogether imaginary, but vast as space ; as inexhaustible as the resources of the mind "

At the present time Credit, in its various forms, is the most gigantic species of Property in this country : inferior only, if it be inferior, to the Land in magnitude : and the negotiation of Debts is, beyond all comparison, the most colossal branch of Commerce. The merchants who trade in **Debts**—namely, **Bankers**—are now the Rulers and Regulators of Commerce—they almost control the fortunes of States

As there are shops for dealing in bread, in furniture, in clothes, in wine, and in every other species of Property, so there are shops, some of the most palatial structures of modern times, for the express purpose of dealing in **Credits,** or **Debts.** And as there are corn markets, and fish markets, and poultry markets, and many other sorts of markets, so there is a market for buying and selling **Foreign Debts**—which is the Royal Exchange. Thus **Banks** are nothing but **Debt Shops,** and the Royal Exchange is the great Debt Market of Europe

The description of the powers of Credit given by Webster and du Puynode is undoubtedly true : but, unfortunately, there is a reverse to the medal. If Credit, in modern times, when rightly used has produced these wonderful effects, it has, when misused, produced catastrophes of corresponding magnitude. False Theories of Credit, and the abuse of Credit have produced monetary cataclysms which have shaken nations to their foundations, and whose direful effects have only been equalled by those of the earthquake and the volcano. It is, therefore, of the deepest national importance to investigate and establish the true Theory of Credit

It was out of discussions on the nature of Credit that the modern science of Political Economy took its rise : and yet the subject of Credit is the one which has been least understood by Economical writers. Considering the mighty part which Credit plays in modern Commerce, and the effects it has produced for weal or woe upon nations, it might have been naturally expected that Economists would have thoroughly worked out the subject : and would have been unanimously agreed upon its nature and effects. So far, however, from this being the case, there is no subject whatever upon which they are more utterly at variance with each other, and with themselves. To understand the subject properly requires a thorough settlement of nearly all the Fundamental Concepts of Economics : which has been entirely neglected. It requires a thorough knowledge of some of the most abstruse branches of Mercantile Law, and the mechanism of Commerce. And, indeed, to explain some cases in Credit was too much for some of the most eminent judges on the Bench. In one case

Lord Eldon said—"I think I argued the case of *ex parte Walker*, and I must say that the speculations about Paper certainly outran the grasp of the wits of the Courts of Justice. This sort of Circulating Medium puzzled as able a man as ever sat here—Lord Thurlow. . . . . What was to be done, then? The Court was puzzled and distressed. At last we came to an anchorage in that case, *ex parte Walker*. I have no difficulty in saying I never understood it. I am satisfied that though, no doubt, the Court understood that judgment, yet none of the Counsel did

As we have shewn in the following section, the whole of the system of Credit, Banking, and Bills of Exchange was originated by the Romans: and a long series of illustrious Lawyers had brought the Theory of Credit to a state of absolute perfection: and their doctrines were embodied and declared to be Law in the great Code, or Digest of Roman Law, called the Pandects, published by Justinian in the early part of the sixth century. They were adopted and confirmed in the **Basilica,** the Reformed Code promulgated by the Basilian dynasty in the tenth century: and they have been the Mercantile Law of all Europe, except England, for 1,300 years. They are fully set forth in all the great Continental Jurists: but, from that unfortunate aversion which the Common Lawyers of England so long entertained against the Civil Law, they were comparatively unknown in this country: though adopted in Equity: and they have never yet found their way into any treatise on Political Economy, either Foreign or English

The Romans abandoned Britain in the beginning of the fifth century: and the Common Law of England on the subject of Credit was exactly the doctrine stated by Gaius, which was the text-book of Roman Law generally used throughout the Empire at that period. The more advanced doctrines of the Pandects have long been adopted in Scotland: and the Courts of Equity in England. And by the Supreme Court of Judicature Act, which came into operation on the 1st of November, 1875, it was enacted that the doctrines of Equity should prevail over those of the Common Law in all cases where they conflict

The investigation of this subject, moreover, opens up another

most interesting branch of inquiry. For a century and a half Mathematicians have been in the habit of giving Debts as an example of **Negative Quantities.** But very few have given any explanation of what they mean by calling a **Debt** a "**Negative**" Quantity: and those who have done so, from a want of the knowledge of the principles of Mercantile Law, and the facts of Commerce, have entirely failed in giving an explanation which can be received as suitable for Economic Science

It is well known that though Mathematicians have been in the habit of using the Algebraical Signs for 1,600 years, and have given the empirical rules for their combinations, it is only within the present century that their scientific principles have been understood. We must, therefore, explain the general Theory of the Algebraical Signs, and the principles of their use in Mathematics and Physical Science: and then give an exposition of the principles of Mercantile Law, and the facts of Commerce: and then discover what interpretation of these Signs is suitable for the particular circumstances of Economics

The Roman Lawyers brought the Theory of Credit to perfection in the early part of the sixth century. Their doctrines are, of course, expressed in words. But we shall find that Jurists working separately: Algebraists working separately: and the practice of Mercantile men acting separately and independently from their own instinct: are all in perfect harmony with each other. And when we fuse these three together—an exposition of the Facts of Commerce—an exposition of the Juridical Theory of Credit—and show the application of the Theory of Algebraical Signs to these facts of Commerce and Juridical principles of Credit, we shall find a most beautiful exemplification of the use of these Signs strictly in accordance with their use in Mathematics and Physical Science. We shall be able to carry the Theory of Credit to a greater state of perfection even than it was left by the Roman Lawyers, by removing an obscurity which has puzzled Jurists and Divines for centuries: and we shall be able, for the first time, to bring Economic Theory to the level of Mercantile Practice

Section I

On the Origin of the System of **Credit, Banking,** *and* **Bills of Exchange** *in Europe*

1. If it were asked how that wonderful people the Romans, commencing with a petty village, gradually extended their empire over so large a portion of the world, it would probably be said that it was due to their hardihood and discipline. But, probably, a cause which has been entirely overlooked, contributed in no slight degree to the result. It was to their wonderful and methodical habits of business. They were, as far as we are aware, the inventors of the great system of Banking, Credit, and Bills of Exchange

The Business of **Banking** *invented by the Romans*

2. The business of Banking, as we understand it, was first practised by the Romans in Europe

At an early period Rome began to gain an ascendency over the neighbouring towns. Numerous strangers flocked to her, bringing the coins of their native towns with them. For their convenience the Government built several shops round the Forum, and let them out to private persons, for the purpose of exchanging the Money of strangers for Roman Money. They were called *Argentarii:* and these shops were called *Tabernæ*, *Mensæ* and *Argentariæ*. The commission they charged for changing the Money was called *Collybus*

On this species of business they subsequently engrafted others

It became the custom for private persons to place their Money with them for the mere purpose of security. In this case they acquired no Property in the Money: but they held it subject to the directions of the depositor—The Money itself was termed a **Depositum**. The Banker paid no interest on this Deposit

because he was not allowed to trade with it : and it was called *vacua pecunia*. When the Depositor wished the Argentarius to make a payment for him, he either gave him personal directions to whom it was to be paid : or he gave the payee a cheque

In process of time they added to these the species of business which in modern language is technically termed "Banking :" they received Money as a personal Loan to themselves : and they paid interest for it. The Money, therefore, necessarily became their own Property to trade with as they pleased : as modern Bankers do

Hence the person who paid Money in this way into his Banker's acquired a mere Right of Action, or **Credit**, in his books. The earliest notice we have of these Banks, or *Argentariæ* is in Livy, vii., 21 : and ix., 40 : B.C., 350 and 308 ; where they are spoken of, as established round the Forum where they always continued. But he gives no account of the method in which they conducted their business. The comedies of Plautus (B.C., 284—184) contain several allusions to Bankers and their business

To give a customer Credit was termed *scribere*. Thus Leonida says in the *Asinaria* of Plautus—

"Abducit domum ultro et scribit nummos"

"*Of his own accord he takes him home and gives him a Credit for the money*"

Perscribere or *rescribere* was to give a cheque on one's account, or to transfer a Credit for one account to another

As Demipho says, in the *Phormio* of Terence—

"Sed transi sodes ad forum, atque illud mihi argentum rursum jube rescribi, Phormio"

PHORM. "Quodne ego perscripsi porro, illis quibus debui"

"*But, Phormio, pray go over to the Forum and order that money to be put to my account*"

PHORM. "*What! that for which I have already given Cheques to my Creditors?*"

So Cicero says—"Qui de cccc. Hs. cc. presentia solverimus, reliqua rescribamus"

"*Of the remaining* 400 *sestertia I have paid* 200 *in cash, and I shall send a Cheque for the rest*"

So Horace—"Quod tu nunquam rescribere possis"

"*Which you can never repay*"

Acceptum ferre was to Credit a customer with money received : *expensum ferre* to debit him with money paid

So Plautus says, in the *Mostellaria*—Ratio accepti et expensi inter nos convenit"

"*The accounts between us balance*"

The Cheque that the customer gave was called *attributio* or *prescriptio:* we have no information as to whether the payee could transfer this Cheque to any one else, or whether it was only payable to himself

On the Family Ledgers *of* Roman Citizens

3. When the practice of writing became common at Rome, it was established as a custom, or law, that every *Dominus,* or head of a house, should keep a family Ledger as strict and exact as those of a modern banker. In this he was obliged to enter all his receipts and disbursements : all sums of money borrowed and lent : all trade profits and losses : and these family Ledgers were the only legal evidence of Debt among Roman citizens received in Courts of Justice. And it was from these family Ledgers that the whole modern system of Book-keeping and Credit has been developed

It seems that every occurrence was noted down day by day in a waste or day-book termed *Adversaria,* and at the end of a month the various items were arranged under their proper heads in the Ledger, which was termed *Tabulæ,* or *Codex accepti et expensi,* which was intended to be preserved as an heirloom in the family. Every five years the *Dominus* had to swear to the truth of the Codex before the Censors : and it was regarded almost with a species of sanctity

A great difference was made between the *Adversaria* and the *Codex.* Cicero says—" He acknowledges that he has not the sum entered in his Ledger (*Codex accepti et expensi*), but he insists that it is entered in his Day-book (*Adversaria*). Are you, then, so fond of yourself, and have such an exalted opinion of yourself, as to sue for money, not on the evidence of your Ledger, but of your Day-book ? It is arrogant to bring forward your Ledger instead of witnesses : but is it not simple madness to produce your own scraps of writing and notes ? If these notes have the same

force and weight and authority as the Ledger, what is the use of making a Ledger ? to make entries in it ? or to keep it in regular order ? to make a permanent record of old writings ? But if we have an established custom to make a Ledger because we put no trust in notes : is that to be considered of weight and approved of before a Judge which we ourselves consider weak and unreliable ? Why is it that we write notes without much care, and we write the Ledger with great care ? For what reason ? because the one is to last a month, and the other is to last for ever : the former are soon erased, the others are preserved with religious care : the former preserve the memory for a short time, the latter pledge the good faith and honesty of a man for ever. Notes are thrown away, the Ledger is kept in order. Therefore nobody produces notes in evidence in a cause : but they do produce the Ledger and read the entries

" You, O Caius Piso, a man of perfect good faith, virtue, dignity, and authority would never venture to demand money on the strength of notes "

This family Ledger was kept in or near the *Arca*, the Chest or Safe in the *Tablinum*, an apartment opposite the entrance door of the *Atrium*, or central hall of a Roman house, where all the family records and archives were kept

On the **Method** *of* **Contracting** *a* **Loan** *among the Romans*

4. For many centuries the Romans divided Property into two sorts, according to the method by which it might be alienated, sold, or transferred. That species of Property which they first possessed, and were most accustomed to consider as the patrimony of the *Domus*, they termed *Res Mancipi:* and this could only be transferred or sold by certain very strict formalities. Other Property, which they held in less esteem at first, or which they acquired afterwards, might be transferred by simple delivery. This kind of Property was termed *Res nec Mancipi*

The list of Property classed as Res Mancipi seems to have been formed in the earliest ages of the Republic ; and was never extended beyond its first limits. All new species of Property was classed under *Res nec Mancipi.* Thus, the Money of the early

Romans was of Copper; and, accordingly, Copper Money was included under the *Res Mancipi:* but Gold and Silver Money were of much later use; and they were classed under *Res nec Mancipi*

Rural servitudes in Italy were classed under the *Res Mancipi:* but the Rights of Obligations, as well as other Incorporeal Property, were classed under *Res nec Mancipi*

The sale or alienation of a *Res Mancipi,* could only be effected by certain very strict formalities, which were necessary in order to ensure a good title, in an age before written conveyances were invented. This form of Sale was termed *Mancipium,* or *Mancipatio.* Gaius says that it was effected in the presence of not less than five witnesses, Roman citizens of full age, and also in the presence of another citizen who held a pair of bronze scales, and hence called *libripens.* The purchaser, holding a bronze ingot, says thus—"I say that this man is mine by the Common Law of the Romans, and that he is bought by me with this bronze ingot and bronze scales." He then strikes the scales with the ingot, and gives it to the seller as representing the price

As we have fully explained in a former chapter, every Loan of Money is a **Sale,** in which the property in the Money is ceded to the "borrower." The Money thus ceded was called *Mutuum:* because it was given in exchange for the Right to demand an equal sum at a future time. As *aes* was a *Res Mancipi,* every loan of Money required to be made by the *Mancipium,* or the sale *per aes et libram.* But the Right of the Obligation was *Res nec Mancipi,* and therefore it might be transferred in other ways

The Bond of Law created between the two parties by the Sale or Loan of the Mutuum by the formality of the *æs et libra,* was termed a *Nexum,* or *Nexus, ûs:* and *Nexum,* or *Nexus,* was the only term in use in the time of the XII. Tables (451 B.C.) to denote a Contract or Obligation

In course of time the cumbrous formalities of the weight and scales were dispensed with, and a Contract or Obligation could be created by simpler methods. These were the *Obligatio re,* the Obligation which was created by the Loan or advance of the thing itself: the *Obligatio verbis,* or the verbal Contract, termed *Stipulatio:*

and the *Obligatio litteris*; or the written Contract, created by entries in the Codex: and finally the *Obligatio Consensu*, or the obligation by simple consent without any formalities

On the Stipulatio, *or* Verbal Contract

5. The Stipulatio, or verbal Contract, was made by solemn question and answer in the presence of witnesses. It was the most extensive form of making a contract in Roman Law: and all other obligations might be transformed into a Stipulation

Supposing that the Stipulation was employed to create an Obligation of Debt, the lender delivered the sum to the borrower and asked him—"Do you promise to deliver to me such a sum at such a date?" the lender answered "I do": and thus the Obligation was created

It is said in the Institutes that *Stipulatio* is derived from *Stipulus*, an old word for firm, ascertained; which may perhaps come from *stips*

The person who asked the question was termed *Stipulator*, or *reus stipulandi*

He who answers was termed *Promittor* or *reus promittendi*

The question or Stipulatio and answer could only form a Unilateral Contract: or one in which only one side was bound: if a Bilateral, or Synallagmatic, Contract was to be formed, it was necessary to resolve it into two or more simple stipulations

Several examples of the Stipulation occur in Plautus: as in *Asinaria*, ii., 4, 48. *Pseudolus*, i., 112: iv., 6, 15. *Curculio*, v., 2, 68: 3, 31, 33. *Bacch.*, iv., 8, 41. *Trinummus*, v., 2, 34, 39. *Rudens*, v., 2, 47

An example of the Stipulatio occurs in the marriage Service of the Church of England: which also shews that two stipulations are necessary to form a Bilateral Contract such as Marriage

The Priest says to the man—"Wilt thou have this woman to thy wedded wife?" &c. The man answers—"I will." The Priest asks the woman—"Wilt thou have this man to thy wedded husband?" &c. The woman answers—"I will"

On Arcaria Nomina

6. We have seen that it was the duty of every Roman

citizen to make an entry of all sums lent and borrowed in his Ledger or Codex *accepti et expensi*. If, therefore, he had lent a sum of money by any of the methods of making a Loan, the Creditor would of course duly enter it in his Ledger at the end of the month. When he did that it was termed *Arcarium Nomen*. But such an entry as this was not the Contract itself: it was only evidence of the Contract. The Contract was created by the actual advance of the money. It was of course absurd to suppose that any person might create another person his Debtor by simply making an entry against him in his Ledger. It was the duty of the Debtor to make a corresponding entry of money borrowed in his Ledger. Cicero says that it is equally disgraceful to make a false entry of money lent, and not to make an entry of money really borrowed, in the Ledger

On the Obligatio Litteris *or* Written Contract

7. But an actual Contract might be made by an entry in the Ledger. The borrower came to the lender, and the lender on advancing the money said to him something of this sort—"*Centum aureos expensos tibi tuli?*" "Have I weighed out and given you 100 *aurei?*" The borrower said—"*Expensos mihi tulisti.*" "You have weighed out and given them to me"

The Creditor then, with the consent of the Debtor, made a formal entry of the loan in his Ledger, which was termed **Expensilatio**: the corresponding entry in the Debtor's Ledger was termed **Acceptilatio**

An entry made with this formality with the consent of the Debtor was absolutely conclusive, and could not be questioned. It formed a valid contract, whether the money had actually been advanced or not: and if an action was brought for the money, the judge could make no inquiry into the actual facts. A solemn entry made with the consent of the Debtor was equivalent to a *Stipulatio*

The Creditor made an entry of *pecunia expensa lata:* the Debtor made an entry of *pecunia accepta relata;* and thus was constituted the *Obligatio Litteris* or Written Contract

The entry of the person's name in the *Codex* or *Tabulæ* was termed **Nomen.** Hence *Nomen* became the general word for

a **Debt.** *Nomina sua exigere* is to get in one's Debts: *nomina locare* is to borrow money: *nomina facere*, to lend money

Hence arose the technical terms *expensum ferre*, to lend money: *acceptum referre*, to borrow money: and the Ledger was called *Codex accepti et expensi*

A pre-existing Debt might be transformed into a new Contract by such an entry in the Ledger. Suppose that a Debtor owed his Creditor money for a hiring or sale, or for any cause which might involve difficulty and expense in proving. If the Debtor consented, an entry might be made of the fixed sum acknowledged as due by the Debtor, and then an *Obligatio litteris* was substituted for an *Obligatio re*. This new Contract cancelled and extinguished the old one, and was one form of *Novatio*, which we shall explain afterwards. Making this entry with the Debtor's consent obviated all risk of the claim being disputed. It was as if a Debtor at the present day gives his Creditor a Bill in respect of a Debt due for any cause. When this was done it was said *a re in personam transcriptio fit*: and it was termed *Nomen transcriptitium*

When a new person was substituted for the original Debtor it was said *a personâ in personam transcriptio fit*

On the Obligatio Consensu *or* Consensual Contract

8. In the year 469 A.D. the Emperor Leo abolished the strict formalities of the Stipulation, and enacted that a consent given in any form whatever, so long as the parties agreed about it, should be valid. There was no necessity for any writing nor any witnesses

The Roman Bankers *invented* Bills of Exchange

9. It is to the Roman Bankers that the invention of Bills of Exchange is due. As the Romans extended their conquests, the bankers established correspondents in foreign cities: and when a Roman wanted to travel, they gave him a Bill on their correspondents. This system was well established in the time of Cicero: and his letters contain many references to Bills of Exchange. Thus he writes to Caninius Salustius—

"Se ait curasse ut cum quæstu populi pecunia permutaretur"

"*He says that he has taken care that a* **Bill** *should be sent for the money along with the people's share*"

Permutare was to give a Bill of Exchange

So, when his son was going to Athens, which was the University of the Roman world, he writes to Atticus—

"Sed quæro quod opus sit Athenis, permutarine possit, an ipsi ferendum est"

"*But I wish to know whether he can take a* **Bill** *for the money he will want at Athens, or whether he must take the money itself with him?*"

So, also—"Quare velim cures ut permutetur Athenis, quod sit in annuum sumptum"

"*Wherefore I wish you to take care that he has a* **Bill** *on Athens for his yearly expenses*"

So, again—"Ut vereor ne illud quod te permutavi, versurâ mihi solvendum est"

"*So that I fear I must borrow money to pay the* **Bill** *you cashed for me*"

In classical Latin *permutare* is the only word that we are aware of for drawing Bills of Exchange. But about the end of the first century a provincial Latin word, *cambio* (*-ire*, or *-iare*), which appears as *campsare* in Ennius, to exchange, began to be used by Columella and Siculus Flaccus: it gradually came into common use, and was used by Amuleius, Charisius, and Priscian. In the middle ages it completely superseded *permutare* in its meaning of exchanging money and bills. The words *Cambitor*, *Cambiator*, and *Campsor* gradually superseded *Argentarius*, *Mensarius*, and *Nummularius:* hence our word Cambist. In the middle ages Bills of Exchange were called *Litteræ Cambitoriæ:* and when Bancherius came into use for a banker, they were called *Litteræ Bancales*, bankers' drafts

On **Transferable Documents** *of* **Debt**

10. The entries in the family ledgers were, as we have seen, the only evidence of Debt among Roman citizens receivable in Courts of Law. Gaius says that written Documents of Debt were only used by foreigners

The Romans began, to a certain extent, to be familiar with transferable Documents of Debt : because they were used to give Cheques on their bankers : but, of course, these were mere Orders, and not Obligations : and we are not aware how far such documents were admissible in Courts of Law

When Gaius says that the Romans did not use written Obligations, he most probably means that they were not recognised as legal documents available as evidence in a Court of Law : for there is abundant evidence that written Obligations were in common use

The Greeks invented the plan of recording Obligations in a written form. Thus χειρόγραφον, *Cheirographum*, or Note of hand, was a simple acknowledgement of a Debt subscribed by the Debtor alone, and given as a security to the Creditor : hence *Cheirographarius Creditor* was a Creditor who had written security for his Debt : and this term is used in French Jurisprudence. Συγγράφη, *Syngrapha*, was a Bond subscribed in duplicate by both parties, and of which each had a copy. These words occur frequently in Cicero's letters. Thus he says—

"Quando vestræ cautiones infirmæ sunt Græculum tibi misi cautionem cheirographi mei"

"*Since your Securities are not valid, I have sent you as a Security my Promissory Note in the Greek form*"

The difference between a *Cautio* and a *Cheirographum* seems at first to have been that the *Cautio* was a simple acknowledgement of the Debt : whilst a *Cheirographum* was an actual Obligation, and by itself formed a Contract, equivalent to the Roman *Stipulatio*

In the times of the early Emperors the family ledgers had begun to fall into disuse : and, by the time of Justinian, had been entirely discontinued, except in the case of bankers. As the family ledgers fell into disuse, the *Cautiones* acquired greater force : and at last became legal documents upon which an action might be founded

Thus the Title of *Nomina transcriptitia*, or Transferable Debts, came to be exclusively applied to the *Cautiones*, *Cheirographa*, and *Syngraphæ:* and thus we have the complete modern system of Bills of Exchange and Promissory Notes. And all the fundamental

principles which govern these instruments are contained at length in the Pandects

On the Greek Trapezitæ

11. There were money dealers and money lenders at Athens: but we are not very well acquainted with their methods of doing business. As far as we can judge from the scanty notices which have come down to us, their business seems to have been more analogous to that of Bill Discounters than that of "Bankers." They were called *Trapezitæ*, from the tables on which they kept their cash, which were placed round the market place. Their original business was changing foreign money. After this they began to receive money at interest, which they lent out to other persons. The father of Demosthenes kept part of his fortune at a Trapezites. Though they were generally of low origin, such as freedmen, aliens, or persons who had been admitted as citizens, they gradually rose into great credit; which, in the case of the principal ones, extended throughout Greece. They obtained so much confidence that business was transacted without witnesses: money and contracts of debts were deposited with them, and agreements were concluded and cancelled in their presence. The ordinary rates of interest at Athens varied from 10 to 36 per cent. The only case in which legal interest was fixed by way of damages was 18 per cent., which may be taken to have been the medium rate in common use

They made the borrower give his χειρόγραφον, *Cheirographum*, or note of hand: and sometimes his συγγράφη, or bond. But we have not been able to discover that they invented the method of transferring debts from one customer's account to the other by means of written orders, which is the essence of "banking"

Demosthenes says—"It is the practice of all our *trapezitæ*, if any private person places money with them which he desires to be paid to any one else, first of all to write down the name of the depositor and the amount of the money, then to write beside it—'This must be paid to such a one': and, if they knew the person by sight to whom it is to be paid, they only wrote his name down; but if they do not know him, they also write beside it the name of some person who can identify him." This passage shows

very clearly that the Greeks did not use cheques, or orders, for the payment of money

These *trapezitæ* were the first that we are aware of who used the method of *discount* which is now universally practised in banking. That is, they retained the full profit at the time of making the loan ; as we learn from Plutarch was their practice. In his violent tirade against borrowing money he is particularly severe against the method of discounting :—" It is said that hares bring forth and nourish their young at the same time that they conceive again : but the debts of these scoundrels and savages bring forth *before* they conceive ! For they give and immediately demand back : and take away their money at the time they place it out : and they put out at interest what they receive as interest. The Messenians have a proverb :—

" 'There is a Pylos before Pylos, and yet another Pylos still' But it may be said to the usurers—

" 'There is a Profit before a Profit, and yet another Profit still'

" And then, forsooth, they laugh at the physical philosophers who say that Nothing can come from Nothing "

Notwithstanding the liberal rate of interest they received, and the great credit and reputation which the more eminent of them enjoyed, the details which we have respecting Pasion, who stood in the highest credit for wealth and integrity, do not give us any very exalted idea of their fortunes. We are told that the profits of his business were only 100 minæ, or £406 5*s.* a year : which seems nothing very great for one of the most eminent *trapezitæ* in Athens. It has also been sometimes alleged that these *trapezitæ* invented Bills of Exchange : but there is no sufficient evidence to prove this

Section II

ON THE NATURE OF CREDIT

Personal Qualities *are* Wealth

12. It has been shown that in ancient times the author of the Eryxias expressly classed Personal Qualities under the title of Wealth (*χρήματα, πλοῦτος*), because persons can make an income by their use

In modern times Smith, and all Economists of note since his day, Say, Senior, Mill, and others, all agree that **Personal Qualities, Ability, Energy, Skill,** and **Character,** are **Wealth.** And the reason is, that persons can make an income by trading with their Personal Qualities exactly in the same way as they can by trading in material goods. **Personal Qualities** may be called **Moral,** or **Personal Capital**

Personal Qualities may be used as Capital, or so as to produce a Profit in two distinct ways—

1. By their direct exercise as **Labour ;** with which, however, we are not concerned in this work

2. They may be used as **Purchasing Power :** that is, to purchase Goods or Labour, by giving a *Promise to pay* at a future time, instead of actual money, in exchange for them. **Personal Character** used in this way as Purchasing Power, is, in popular language, termed **Credit**

All eminent writers recognise **Personal Credit** as Personal Property, or **Wealth**

Thus Demosthenes says—

"*δυοῖν Ἀγαθοῖν ὄντοιν πλούτου τε καὶ τοῦ πρὸς ἅπαντας πιστεύεσθαι, μεῖζόν ἐστι τὸ τῆς πίστεως ὑπάρχον ἡμῖν*"

"*There being two kinds of* **Property,** *Money and General Credit, our greatest Property is* **Credit** "

So also—"εἰ δὲ τοῦτο ἀγνοεῖς ὅτι Πίστις Ἀφορμὴ τῶν πασῶν ἐστὶ μεγίστη πρὸς χρηματισμὸν, πᾶν ἂν ἀγνοήσειας."

"*If you were ignorant of this, that* **Credit** *is the greatest* **Capital** *of all towards the acquisition of Wealth, you would be utterly ignorant*"

So Bishop Berkeley, in his Querist, asks—Whether **Power** to command the Industry of others [*i.e.*, **Credit**] be not real **Wealth**?

So Melon says—"To the calculation of Values in Money there must be added the current **Credit** of the merchant, and his possible **Credit**"

So Dutot says—"Since there has been regular commerce among men, those who have need of money have made Bills, or Promises to pay, money. The first use of Credit, therefore, is to represent Money by Paper. The usage is very old: the first want gave rise to it. It *multiplies* specie considerably: it supplies it where it is wanting; and which would never be sufficient without the Credit: because there is not sufficient Gold and Silver to circulate all the products of nature and art. So there is in commerce a much larger amount in Bills than there is in specie in the possession of the merchants

"A well managed Credit amounts to tenfold the funds of a merchant: and he gains as much by his Credit as if he had ten times as much Money. This maxim is generally received among all merchants

"**Credit** is, therefore, the greatest **Wealth** to every one who carries on commerce"

So Smith says—"Trade can be extended as Stock increases: and the **Credit** of a frugal and thriving man increases much faster than his stock. His trade is extended in proportion to the amount of **Both** [*i.e.*, his **Stock** and his **Credit**], and the sum or amount of his Profits, is in proportion to the extent of his trade: and his annual accumulation in proportion to his Profits"

So Junius says—"**Private Credit** is **Wealth**"

So Franklin says—"**Credit** is **Money**"

No one is more emphatic than Mill in the assertion that **Credit** is **Wealth**

In the beginning of his work he says—

"**Everything** forms, therefore, a part of **Wealth** which has a **Power** *of* **Purchasing**"

He then says—"For **Credit,** though it is not productive power, is **Purchasing Power**"

Also—"The amount of **Purchasing Power** which a person can exercise is composed of all the Money in his possession, or due to him [*i.e.*, the Bank Notes, Credits, or Bills he has], and of all his **Credit**"

Also—"**Credit,** in short, has exactly the same **Purchasing Power** with **Money**"

And he repeats the same thing in numerous other passages

Now, if Mill lays it down as the fundamental Definition of Wealth that—

"**Everything** is **Wealth** that has **Purchasing** Power"

And if he says that "**Credit** is **Purchasing** Power:" then the necessary inference is that "**Credit** is **Wealth**"

That is a Syllogism in which Mill is safely padlocked, and from which there is no escape

Hence it is seen, by the direct statement of all these writers—and innumerable others might be cited, if necessary—that **Mercantile Character** is **Purchasing Power,** and is **Wealth,** or **Personal Capital;** because it can be used as well as Money to purchase Goods and Labour with. And if a man can purchase Goods, Labour, or Money with his Personal Credit, then his **Credit** has a *Value which is measured in Money,* as well as that of any material chattel

Hence, **Mercantile Character** is **Wealth:** Valuable Property; and may be used as **Capital,** as well as any material chattels

And a merchant's Character, or Credit, may be damaged and injured by false reports just as his material chattels may be damaged and injured by material violence. To damage a merchant's Credit is to injure and destroy his Purchasing Power: and as we have seen that everything which has Purchasing Power is Wealth, to ruin a merchant's Credit is exactly the same injury to him as to rob him of so much actual money. And he has an action against any one who injures his Mercantile Character, or Credit, equally as he has against any one who injures his material chattels

So distinctly is Personal Character recognised as Property in Roman Law, that it is classed under the *Jura in re:* and an attack on it is an *Injuria,* or the infringement of a legal Right

Hence it must be carefully observed that **Mercantile Character,** or **Credit,** is **National Wealth**

On the **Creation** *of* **Obligations**

13. Mercantile Character, or **Credit,** then, is Purchasing Power, and is now universally admitted to be **Wealth.** But as Value does not enter into Economics unless a person manifests his Value, or Demand for something, by giving something in exchange for it: so Mercantile Character, or Credit, does not enter into Economics until the merchant actually exercises his Credit by making a purchase with it

And when a merchant buys goods with his Credit, or "on Credit," as it is often termed, it is an absolute Sale, just as much as if the purchase had been effected with Money. He acquires the absolute Property in the goods as fully and effectually as if he had paid for them in Money

But at the very instant that the Property in the goods is ceded to the merchant, a **Contract,** or **Obligation,** is created between the two parties, the buyer and the seller of the goods, which consists of two parts—

1. The **Right to demand** payment in the person of the Seller, or **Creditor**
2. The **Duty to pay** in the person of the Buyer, or **Debtor**

These two Quantities constitute the Contract, or **Obligation**, or the Bond of Law between the two parties

In this Contract, or Obligation, it is the Creditor's **Right of action** to demand the Payment at a future time, which, in Law, Commerce, and Economics, is termed the **Credit**

And this Right of action, or Credit, is the Price, or Payment, for the goods. When a merchant takes a trader's Bill at three months in exchange for goods, it is **Payment** for the goods, just as much as if it were Money. The transaction is a Sale, or an Exchange. When the trader gives his Bill at three months, the Bill is Payment for the goods: what he has to do is to pay his Bill when it becomes due: which is another Exchange

Division of Opinion among Jurists as to the Case of the **Debtor** *in an* **Obligation**

14. We have now come to the most abstruse and subtle point in all Economics, which will demand the student's most earnest attention: because it is the great Serbonian bog in which multitudes of writers, literary and mathematical, have been swallowed up, from a want of knowledge of the most elementary principles of Mercantile Law and practical business: and its rectification and elucidation will open up a completely new branch of inquiry of the greatest novelty and interest

When an Obligation has been created between two parties in the manner described in the preceding paragraph, on the Sale of Goods or the Loan of Money, the case of the Creditor is clear: in exchange for the Goods or the Money he has received a Right of action. This is his Property, which he can sell and exchange for other Goods, or for Money

But a strong division of opinion exists among Jurists as to the case of the Debtor in the Obligation. When a merchant has bought goods and given a Bill at three months in payment for them—*Is he in* **Debt** *at the* **Present time** ?

The great Roman Lawyers held that he is in Debt at the present time: but that the Remedy is deferred. The maxim of Roman Law is *Debitum in presenti, solvendum in futuro*

But English Law holds a different view. It holds that when

a merchant agrees to take a Bill at three months in exchange for the goods, the Bill is payment for the goods : and that there is no **Duty to pay,** and therefore no **Debt,** until the time has come for the payment of the Bill

It is a maxim of English Law that "*Credit unexpired may be pleaded under the General Issue :*" which means, that if a trader has bought goods at an agreed upon Credit, and an action is brought against him for the money before the period of the Credit has expired, he may reply that he is not in Debt at all

So Mr. Pitt Taylor says—"In addition to these examples, it may be observed that whenever the Defendant can show that, in fact, *no Debt ever existed* before action brought, he may do so under the plea of 'never indebted.' Thus, for instance, if the action be for goods sold and delivered, he may defend himself under this plea, by proving that they were sold on *Credit which was unexpired* when the action was commenced"

And this is undoubtedly the correct view : when a merchant agrees to take a Bill at three months for his goods, he has received what he agreed to take in exchange for them. He is, therefore, **Paid** for them. It is the usual mercantile expression to say that the goods have been *paid* for by Bill. Consequently, there is no Debt, or Duty to pay money, until the Bill has become due

Analogous cases will prove the correctness of this view

Suppose that a tenant takes a house, or an apartment, and agrees to pay the rent quarterly. Suppose that after he had been a week in the house the landlord came and demanded his Rent : the tenant would reply that he owed the landlord *Nothing :* that the bargain was that the tenant was to have the use and enjoyment of the house for three clear months before any Rent became due : and consequently, that no Duty to pay, or Debt, arose until that time had come

The case of a trader who gives a Bill at three months in exchange for goods is exactly similar. The bargain is, that he shall have possession of the goods for three months before the Duty to pay for them comes into existence. Consequently until the three months have expired there is no **Duty to pay :** and therefore there is no **Debt**

So when a farmer takes a farm on a lease of 19 years, he becomes bound to pay the Rent half yearly. But the agreement is

that he shall have the use of the farm for intervals of six months before each instalment of Rent becomes due. And it would be just as absurd to say that a farmer is in Debt at the present time for the Rent he has agreed to pay 19 years hence, as it is to say that a merchant is in Debt at the present time for Money which he has only agreed to pay three months hence

In each case the successive payments are intended and meant by both parties to be paid out of the Profits which are to be earned in the interval

The importance of the consideration consists in this—It is often supposed that when a person is under an Obligation to pay a sum of Money at a future time, the amount of the sum to be paid in future is to be *subtracted* from his present Property : or that it is a diminution of it ; and it is expressed by the sign *Minus*, or —. But this is evidently a vital error. The Debtor's Duty to pay has no present effect : it is no subtraction from his present Property : it is a mere **Memorandum** that he has to make an exchange at some given future time

Advantage of adopting the Conception *of* Economics *as the* Science *of* Exchanges *or of* Commerce

15. We now see the advantage of adopting and firmly grasping the conception of Economics as the Science of Commerce or Exchanges. Because all the phenomena of Credit : which are a hopeless puzzle and perplexity while it is treated as the " Production, Distribution and Consumption of Wealth," become perfectly clear and simple when it is understood to be the Science of Commerce or Exchanges

In every case of a " Loan " of Money, or a Sale of Goods "on Credit," a Right of action is generated : which is a Saleable Commodity : which may be bought and sold like any material chattel : and it has Value, because it will be paid in money. This Right of action may be exchanged for goods exactly like a piece of money any number of times, and so effect any number of exchanges : until it is paid off and extinguished : and when it is so it is another exchange

And it may be sold and exchanged for other Rights of action : as when a Bill at three months is sold to a banker in exchange

for his Credit, which is a Right of action payable on Demand. Debts are only generated by Exchanges: and after effecting any number of Exchanges they are only extinguished by Exchanges. Thus the whole series of operations consist in Exchanges. Debts, as we have over and over again pointed out, are a species of merchandise: and are the subject of the most colossal commerce in modern times. While they exist they are independent Quantities as much as any other chattels: and Economics has only to do with them while they exist

On an **Erroneous Idea** *as to the* **Nature** *of* **Credit**

16. The Three Ambiguities in the Theory of Credit which we explained in the first chapter show how abstruse and complicated the subject is. There are other forms of error respecting it which now require the student's attention

It has been asserted that Credit adds nothing to the resources of the world, because it is neutralised by something else

Any person practically conversant with commerce, and seeing that the enormously greater portion of commercial operations are effected by means of Credit, would think it strange doctrine that Credit adds nothing to the resources of a nation, or of an individual: because Credit is exactly the Purchasing Power which an individual or a nation has *over and above Money*

Some writers, however, have been misled by a very manifest error

Thus Henry Thornton, an able man, a banker, and one of the authors of the Bullion Report, says—"Paper constitutes, it is true, an article on the Credit side of some men, but it forms an exactly equal item on the Debit side of the books of others. It constitutes, on the whole, neither a Debt nor a Credit"

So another eminent Banker, M. Cernuschi, says—"The balance sheet of every individual contains three accounts: existing goods, Credits, and Debts. But if we collected into one all the balance-sheets of every one in the world, the Debts and the Credits mutually neutralise each other, and there remains but a single account: existing goods

"The totality of goods, therefore, forms the general inventory. There is the first matter of exchange. The Debts and Credits are subsidiary matters. Debts and Credits are reciprocally trans-

mitted as goods are transmitted : but, however great or however small they be, and through whatever hands they may pass, Credits for some, Debts for others, they add nothing to and take nothing away from the general inventory "

The argument of Thornton and Cernuschi is simply this. Suppose A to have £100 in Money, and also a three months' bill of £50 on B. Suppose B to have £100 in money, but at the same time to have accepted a bill of £50 at three months to A. Then A's Property would be stated thus, £100 + £50 : B's property would be stated thus, £100 — £50 : now the argument of these writers is this—that the + £50 and the — £50 balance and neutralise each other, and the result is 0 : which according to them, is the same thing as saying that these quantities do not exist at all

This view might perhaps seem at first sight somewhat specious, but a very little reflection will show that it is erroneous

It alleges that if there are two equal and opposite Quantities in existence at any instant which neutralise each other's effects, and the result is 0, that is the same thing as saying that these two Quantities have no existence

Suppose that there are two equal and opposite forces acting on a particle at any time : they neutralise each other's effect : but it would be highly erroneous to say that for that reason they do not exist at all

Suppose that the Government on a division has 345 supporters and 300 opponents : the 300 members on each side neutralise each other : and the result is that the force of the Government is 45 : but that is a very different thing from saying that the 600 members do not exist at all

Hence, even if it were true that these equal and opposite Quantities neutralised each other, it would be erroneous to say that that is the same thing as if they did not exist at all

We have already pointed out that in the case of Obligations not yet due, while the Credit, or Right of action of the Creditor, is an existent Quantity, and may be bought and sold like Money or any other chattel, the Duty to pay, or Debt, of the Debtor does not come into existence until the Credit has expired and the time of payment has come. Hence in this case there is no question of one Quantity neutralising the other.

But even in the case of the Debt being payable on demand, and therefore actually existing, the Creditor's Right of action is a separate Quantity, until it is paid off and extinguished : and the Debt is also extinguished at the same time : so that they are both extinguished together. But until this is done the Debtor has the full right to part with or pay away any money in his possession

The fact is that a person's Credit, as we have already explained, is the Purchasing Power of his Character *over and above* the Money he has : and as it is now agreed by Economists that *any thing* which is **Purchasing Power** is **Wealth,** it follows that Credit is Wealth over and above and additional to Money ; and every one knows that a Merchant's Credit greatly exceeds his Money ; and that immensely the greater portion of commerce is carried on by Credit, and not by Money

On the **Error** *made by some Mathematicians in terming* **Debts Negative Quantities**

17. We have now to commence a new and most interesting branch of the Theory of Credit

For a century and a half since the days of Maclaurin, mathematicians have been in the habit of giving **Debts** as an example of "**Negative**" Quantities. But they have entirely failed in giving a satisfactory explanation of the meaning of the term "**Negative**" as applied to Debts

The explanation usually given is this—A man's Property may be considered as Positive, and his Debts as Negative : subtract his Debts from his Property, and the remainder, if any, is his Capital. And as the national Capital is the aggregate Capital of all the individuals in it, according to this doctrine, in order to find the quantity of Property in the country, all the floating Debts in it would have to be subtracted from all the Property in it, and the remainder would be the amount of national Capital

So Peacock, the distinguished Algebraist, says—"If property possessed or due, could be denoted by a number or symbol with a positive sign, a debt would be indicated by a number, or symbol, with a negative sign, or conversely : such affections of property are correctly symbolised by the signs + and — : since they

possess the inverse relation to each other, which these signs require: for if to a person A there be given a certain property or sum of money with, or *added* to, a debt of equal amount, his wealth, or property, remains the same as before"

Now, in a certain sense, these modes of statement have a semblance of truth. If a man were going to retire from business he would call in and discharge his liabilities; and the remainder, if any, would be his fortune

But such a mode of statement is quite unsuitable for Economics. Debts are a species of Property of the most colossal magnitude, and are the subject of the most gigantic commerce. So long as they exist they are Economic Quantities: and Economics has only to do with them while they exist, and are the subject of commerce. These Credits, or Debts, in their various forms, are a Property, second only in magnitude to the land itself: and what are they to be subtracted from?

Two Algebraists of the highest eminence have attempted to explain the application of the Negative Sign to the Theory of Credit, or Debts, and we shall now show that they have both fallen into error

Euler says—"The manner in which we calculate a person's property is an apt illustration of what has just been said. We denote what a man really possesses by Positive numbers, using or understanding the sign + : whereas his Debts are represented by Negative Numbers, or by using the sign —. Thus, when it is said of any one that he has 100 crowns, but owes 50, this means that his real possessions amount to 100 — 50, that is to say, 50 crowns

"As negative numbers may be considered as Debts, because Positive numbers represent real possessions, we may say that Negative numbers are less than nothing. Thus, when a man has nothing in the world and owes 50 crowns, it is certain that he has 50 crowns less than nothing: for if any one were to make him a present of 50 crowns to pay his Debts, he would still be at point 0 though really richer than before"

It is quite easy to show that the first paragraph is not a suitable mode of stating the question in Economics. For suppose that a person has 100 crowns and is bound to pay 50 crowns a

year hence: then it is true that his Property might be stated as 100 — 50: but it would be quite inaccurate to say that his Property is only 50 crowns. Because he has 100 crowns, which he may trade with and dispose of in any way he pleases in the meantime: and he is only bound to have 50 crowns at the end of the year to discharge his Debt

But the owner of the Debt may put it into circulation: and it may be bought and sold, or exchanged any number of times, and produce all the effects of Money until it is paid off. So there may be the 100 crowns *and* the Debt, or the Right to Demand the 50 crowns, circulating simultaneously in commerce

Nevertheless, the Debtor's Property would be correctly stated as 100 — 50 crowns. Hence, it is quite clear that the 50 crowns are not to be subtracted from his *present* Property. Now, by the *Law of Continuity,* this same principle must be true if we diminish the period of payment gradually from one year by small gradations of a day at a time, till we reduce it to 0, or make the Debt payable on Demand. The fact is, the expression is to be read in this way: he possesses 100 crowns, *coupled with* the **Duty to pay** 50 crowns at some given time

So in the second paragraph, when the Debtor possesses 0 crowns and owes 50 crowns, he is said to have 50 crowns less than nothing. This clearly means that he has the **Duty to pay** 50 crowns: and has nothing to pay them with. Now suppose that being in such a position, as Euler says, some one makes him a present of 50 crowns to pay his Debt with: then he is clearly 50 crowns richer than he was before; and yet his Property is now only = 0: this is an example that + × + gives +

Thus Euler is right so far as he goes: but he has stated only half of the case. Because there is another combination of Algebraical symbols which gives +, namely — × —: and there is another mode in commerce of arriving at the same practical result

Suppose that his Creditor **Releases** him from his **Debt**: then his Property would also = 0: and, as in the former case, he would be 50 crowns richer than before. Now, if crowns are +, and to Give is also +: then a Debt is —, and to **Release** or **Take away** is also —: consequently to **Give Money** is represented by + × +: and to **Release** a **Debt** will be

represented by $- \times -$; and the position of the Debtor will be exactly the same after each operation

Hence, to Release a Debtor from the Duty to pay Money is exactly equivalent to making him a Gift of Money. This shows that the Release (—) of a Debt (—) is exactly equivalent to the Gift (+) of Money (+): or that in Commercial Algebra $- \times - = + \times +$, as in Common Algebra: an example of the *Permanence of Equivalent Forms:* a principle of the most momentous consequence in modern commerce

18. Peacock, Dean of Ely, to whom Algebraical Science is so much indebted, has equally failed to give a correct interpretation of the term Negative, as applied to Debts

He says—"A Merchant possesses a pounds and owes b pounds: his substance is therefore $a - b$: when a is greater than b

But since a and b may possess every relation of value, we may replace b by $a - c$, or $a + c$: according as a is greater or less than b: in the first case we get

$$a - b = a - (a - c) = c$$

and in the second—

$$a - b = a - (a + c) = -c$$

"If c therefore expresses his substance or Property when solvent, $-c$ will express the amount of his Debts when *insolvent:* and if from the use of + and — as signs of affection, or quality, in this case, we pass to their use as signs of operation, then, inasmuch as

$$a + (-c) = a - c, \text{ and } a - (-c) = a + c,$$

it will follow that the addition of a Debt $(-c)$ is equivalent to the subtraction of Property, c, of an equivalent amount, and the subtraction of a Debt $(-c)$ is equivalent to the *addition* of Property, c, of an equal amount: and it consequently appears that the subtraction of Debt, in the language of symbolical Algebra, is *not its* **Obliteration** *or* **Removal**, *but the change of its affection or character from Money or Property* **owed** *to Money or Property* **possessed**"

Here we observe that Peacock arrives at the conclusion that the subtraction of a Debt is equivalent to the addition of Property: exactly as we have seen above: but his method of arriving at the result is erroneous; because he forms the same idea

of a Debt that Euler does: namely, it is Money in the possession of the Debtor owed and pledged to the Creditor, and therefore affected with Negative Sign: and that the Release of a Debt is the change of the sign of affection of Money owed into Money possessed

Now this is exactly the same error as Euler has fallen into; and is exactly the error which we have already shown is so carefully provided against in the Digest, and by Pothier, Austin, and many other Jurists

If these distinguished mathematicians had reflected, they would have seen that their interpretation could not be correct. Because the signs + and — always refer to similar Quantities, but of opposite Qualities. Now the Creditor's Right is +, and the inverse of a simple Right cannot be a simple quantity of Money: it must be something which is the Inverse of a **Right**: and the Inverse of a **Right** is a **Duty**. Besides, releasing an insolvent Debtor from a Debt does not put him in possession of any actual Money: it is only equivalent to it: but not identical with it

The fact is that the Debt is not Money in the possession of the Debtor, owed or pledged to the Creditor: but the abstract **Duty to pay** Money: and the Negative Sign denotes the **Cancelling** of the **Duty**, or **Releasing** the Debtor from the **Duty to pay**

Hence the result is not produced in the way in which Peacock says it is: but exactly in the way he says it is not

On the Application of the **Theory** *of* **Algebraical Signs** *to* **Economics**

19. The perplexities of the Theory of Credit, which have baffled all the ~~the~~ Economists in the world to explain, can only be unraveled by the great modern doctrine of the **Separation** of the **Signs** of **Affection** or **Distinction** and **Operation**

As the introduction of this great Doctrine into Economics is perfectly novel, we shall have to treat of it somewhat fully: especially as there may be students of Economics who are not very familiar with it in other sciences

It is a remarkable example of the almost universal truth that

practice has always preceded theory, that even the Practice of Science long preceded the Theory of Science. Thus from the days of Diophantus it was perfectly well understood as an empirical rule in Algebra that — × — gives +

Sixteen hundred years ago Diophantus said—

"λεῖψις ἐπὶ λεῖψιν πολλαπλασιασθεῖσα ποιεῖ ὕπαρξιν"

"**Defect** *multiplied into* **Defect** *gives* **Existence,**" which is expressed in common language as *two Negatives make an Affirmative*

When the great pioneers of Algebra in modern times, Harriot, Fermat, Vieta, Des Cartes, Cardan, Tartaglia, translated their reasonings into general symbols, they found that they had created a machine whose working they were unable fully to understand. They found among other things that many problems produced **Negative** answers. Unable at first to apprehend the meaning of Negative answers, they believed that they had no real meaning : and they called Positive Roots true (*veræ radices*) and Negative Roots *fictitious* (*fictæ radices*)

In the progress of Natural Philosophy the Negative Sign was used to a vast variety of Quantities : but no general Theory of Signs was devised, and the progress of Mathematics was much impeded by the want of the generalisation. The rule that — × — gives + was universally adopted in practice, because no other produced right results. But Algrebraists were wholly unable to explain it : it was wholly unknown to Newton : and when he tried to explain it, the great Euler babbled like a child

Even so late as 1813, a distinguished mathematician at Cambridge denied the existence and ridiculed the idea of there being any such things as "Negative" Quantities

Many centuries ago, at least about 1100 A.D., the Hindoo Algebraists had made considerable advances in explaining the Theory of Signs : but nothing was done in Europe until nearly the close of the last century. Since then a new spirit of philosophy has been breathed into the old science: and a number of distinguished Algebraists, Arbogast, Argand, Buée, Armand, Carnot, Warren, Peacock, De Morgan, and others, have completely established the **Theory** of **Signs**: and their labours

have resulted in the Doctrine of the **Separation** of the **Signs** of **Affection** or **Distinction** and **Operation**

In most of the common books on Algebra we are told that the sign + means addition, and the sign — means subtraction

We are also told that + × + gives + : and that — × — also gives + : a doctrine which, without further explanation, is simply an inscrutable mystery, not to say an absurdity

Writers who are not versed in Natural Philosophy have no conception of the signs + and — meaning anything but addition and subtraction. It is no doubt perfectly true that in some cases they have that meaning : but that is only one of their meanings. But every one who has any knowledge of Natural Philosophy knows perfectly well that they have in reality an immense variety of meanings, according to the particular circumstances out of which they arise : or the body of facts to which they relate : and that it is wholly impossible to determine their meaning until we know the particular circumstances under which they occur

We must now explain the general use of these signs in Natural Philosophy, and show how they may be applied by analogy to the particular facts of Economics

All **Sciences** *deal with* **Quantities** *and* **Operations**

20. In order to explain the matter in the simplest way possible it may be said that all Sciences deal with **Quantities** and **Operations** : and that throughout all Nature there is **Opposition** or **Contrariety** or **Inverseness** — both Opposition or Contrariety of **Quality**, and Opposition or Contrariety of **Operation**

Quantities that are endowed with **Opposite** or **Inverse Qualities** are universally distinguished in Mathematics and Natural Philosophy by the Signs + and —

These Signs so used in Natural Philosophy to denote Opposite or Inverse Qualities in Quantities of a similar nature, no matter what the Opposition or Inverseness may consist in, are usually termed **Signs** of **Affection** or **Position** : or we may with equal propriety, term them **Signs** of **Distinction**

But also **Opposite** or **Inverse Operations** may be performed on these Quantities endowed with **Opposite** or **Inverse Qualities**: and these Operations of Opposite, Inverse, or Contrary natures are also designated by the same Signs + and —. And any Operations whatever of an Opposite, Contrary, or Inverse Nature, no matter what the Opposition, Contrariety or Inverseness may consist in, may be denoted by these signs

They are then termed **Signs** of **Operation**

So in every new body of facts which are brought under scientific control: and in every new science whatever, **Opposition** or **Contrariety** or **Inverseness** is sure to appear: and consequently the Signs + and — receive new applications of meaning in every new science: and it is quite impossible to determine their meaning, unless we know the Quantities they refer to, and the Operations they denote

As each one of the Physical Sciences has been brought in succession under the control of Mathematics, these Signs have received new meanings according to the Quantities and Operations they denote. Consequently they have already received an immense variety of meanings: and they will receive new applications of meaning according as every new body of facts is brought under scientific control: and we have now to investigate and determine what is their true meaning and application in the body of facts which we denominate the Science of Economics

And the **Combination** of these Opposite Signs, denoting **Opposite** or **Contrary Qualities** with the same signs denoting **Opposite** or **Inverse Operations** performed upon them: that is, the **Combination** of the **Signs** of **Distinction** with the **Signs** of **Operation,** gives rise to the well known Algebraical Rules

$$\begin{aligned} + \times + &\text{ gives } + \\ + \times - &\text{ ,, } - \\ - \times - &\text{ ,, } + \\ - \times + &\text{ ,, } - \end{aligned}$$

These Laws, which are universally applicable in Natural

Philosophy, are equally applicable in Economics: and among other things are alone capable, by a due adaptation of their general meaning to the particular facts of Economics, of giving the complete solution of the **Theory** of **Credit**, which has hitherto been the opprobrium of the science

There are Economic Quantities of **Inverse** or **Opposite Qualities** or **Properties**: and therefore following the strictest analogy of Physical Science, we shall distinguish them by **Opposite Signs**. And also **Opposite Operations** may be performed on these Opposite Quantities: bringing into play the well known Algebraical Rules; which will lead to consequences which may surprise some students

Examples of the Algebraical Signs applied to **Quantities**

21. We will now give some examples of the Signs + and — applied to Quantities of a similar nature, but of **Opposite Qualities**: to furnish us with analogies to guide us to their application in Economics

If we take the meridian of Greenwich as 0, degrees of Longitude East and West of Greenwich are Opposite to each other: if therefore the ones are called +, the others may be called —. So also taking the Equator as 0, degrees of North and South Latitude are Opposite to each other: and if the ones be denoted by +, the others will be denoted by —

So in Algebraical Geometry in which it is necessary to fix the position of the lines, if any given fixed point be taken, lines drawn in Opposite directions from it, either to the Right or to the Left: or Upward or Downward from it: are distinguished by the Signs + and —

So if a line revolving in one direction be denoted by +, then when it revolves in the Opposite direction, it is denoted by —

If two Mechanical Forces act in Opposite directions they are distinguished by the Opposite Signs + and —

If 1 be multiplied by powers of a, the results are termed **Positive** powers of a: if 1 be divided by powers of a, the results are termed **Negative** powers of a

In modern Kinematics an accelerating Force is one which causes a body to change its Rate of Velocity: if it *Increases* the

Rate of Velocity it is termed **Positive**: if it *Diminishes* the Rate of Velocity, it is termed **Negative**

In errors of observing phenomena, if the Error is *Greater* than the reality it is termed **Positive**: if it is *Less* than the reality it is termed **Negative**

In the Mercantile papers, it is usual to compare the weekly results of the railway traffic with the results of the corresponding weeks of the preceding year: if the results of the present year *exceed* last year's, the *Difference* is denoted by +: if they *fall short*, the *Difference* is denoted by —

A curious instance of this principle may be cited from steam navigation. Owing to the resistance of the water, the paddles or the screw of a steamer do not in general propel the vessel through the water so fast as they would do if there were no resistance. This **Loss** of speed is termed the **Slip**. But in the case of the screw, by giving the stern of the vessel a particular shape, the paradoxical result may be obtained, that it may be made to go through the water *Faster* than it would do if the screw were working in a solid. In this case the difference between the theoretical and the actual speed is a **Gain** instead of a **Loss**: and the Gain is termed the **Negative** Slip

Now this idea of Opposition is applied to a continuous line: or to **Motion** in a continuous line. If any point be taken as 0, then the part of the line on one side may be denoted by +, and the part on the other side by —

Thus in a thermometer some fixed point, as the freezing point, is taken as 0; and degrees above that are termed degrees of Heat, and distinguished by +: degrees below the 0, are termed degrees of Frost and distinguished by —

Now suppose that the mercury rises from 10^0 of Frost to 15^0 of Heat, to find the total number of degrees passed over, the degrees on *both* sides of 0 must be *added* together. That is the Negative degrees must be added to the Positive ones: and not subtracted from them

In Natural Philosophy **Time** is considered as **Motion** in a continuous line. If therefore any point in Time be fixed on and denoted by 0, then Time on **Opposite** sides of this point will be denoted by Opposite Signs. If Time **before** this epoch be denoted by +, then Time **after** this epoch will be denoted by

— : and the successive intervals of Time whether years, months, weeks, days or hours, will be denoted thus—

.... +6,+5,+4,+3,+2,+1, 0,—1,—2,—3,—4,—5,—6,....

If the birth of Christ be taken as the era, or 0, then years *before* Christ will be **Positive** : and years *after* Christ will be **Negative.** To find the total number of years from the foundation of Rome to the present time we must *add* + 753 and — 1883 together : or 2636 years altogether

We might multiply examples of the meaning of the signs + and — in the various sciences to an immense extent ; but that would be superfluous : we have given a sufficient number to explain the general principle

In short, in the most general terms take any quantity, whatever it may be : and then take its **Opposite, Contrary,** or **Inverse :** then if one of these is distinguished by +, then the other is distinguished as —

Thus Up and Down : Right and Left : Before and Behind : Before and After : Time **Past** and Time **Future :** Above and Below : Yes and No : Supporters and Opponents : Face to Face : Back to Back: Erect and Inverse : Concave and Convex : Sympathy and Antipathy : Virtues and Vices : Rewards and Punishments : **Rights** and **Duties: Active** and **Passive:** and innumerable other things: are all **Opposite, Contrary,** or **Inverse** to each other : and may all be distinguished by the Signs + and —

Examples of the Algebraical Signs applied to **Operations**

22. The same Signs + and — are also applied to any **Operations** of an **Opposite, Contrary**, or **Inverse** Nature ; no matter what the Opposition, Contrariety, or Inverseness, may consist in

Thus to Add and to Subtract : to Pay and to Receive : to go Forward and to go Backwards : to Do and to Undo : to Build up and to Pull down : and innumerable Operations of a **Contrary** or **Inverse** Nature are all distinguished by the Signs + and —

And as in the most general terms possible, **any** Operations

of an **Opposite**, or **Contrary**, or **Inverse** nature are distinguished by the Signs + and —: to **Create**, or to call into existence out of the **Absolute Nothing**, and to **Cancel, Annihilate**, or to **Decreate** into the **Absolute Nothing**, are **Operations** of **Opposite, Contrary**, or **Inverse** Natures: consequently, if to **Create** out of the **Absolute Nothing** be denoted by the **Positive** Sign +, then to **Cancel, Annihilate**, or **Decreate** into the **Absolute Nothing** will be denoted by the **Negative** Sign —

The Terms **Positive** *and* **Negative** *are also used by Jurists to denote* **Opposition**

23. The terms Positive and Negative are also very commonly used by Jurists as well as by Mathematicians to denote Opposition

Thus Ortolan uses the terms Positive Rights and Negative Rights to denote Right to **Acts** and Rights to **Forbearances**

Jurists class Servitudes as Positive and Negative: or those which consist in the Right to *Use* the given subject in a given manner: and those which consist in the Right to a *Forbearance* on the part of the owner from using the subject in a given manner

Ortolan calls the Omission or Refusal on the part of a man to act or do something a Negative Fact

So Austin speaks of Positive and Negative Wrongs: or Wrongs of *com*mission and *o*mission

So a **Negative** Virtue is the absence of a vice. Professor Stubbs says of Edward II.—"His faults are quite as much **Negative** as **Positive**: his character is not so much vicious as devoid of virtue"

In Parliamentary language a Bill which is thrown out is said to pass in the Negative

In its relation to a Right a Duty is Negative: but Duties themselves are termed Positive and Negative: as there is the Duty to do something and the Duty to abstain from doing something. Thus we have, as it were, a Negative sign within a Negative Sign: which we shall hereafter find to be also the case in Economics

So Active and Passive are distinguished as Positive and

Negative : and Rights and Duties are frequently termed Active Rights and Passive Rights

Arguing, then, from these analogies, we are quite at liberty in Economics to apply the terms Positive and Negative to any **Quantities** and **Operations** whatever of an **Opposite Inverse,** or **Contrary** nature

Thus, if the *Right to Demand* £100 be denoted by (+£100), then the *Duty to pay* £100 will be denoted by (—£100); without any reference to any specific £100 in cash

Example of the Application of the **Positive** *and* **Negative Signs** *to* **Time**

24. We shall now give an example of the Application of the Signs + and — to **Time,** which is of supreme importance in elucidating the Theory of Credit

Suppose this question were asked—

A father's age is 40, *and his son's* 15 ; *when* **was** *the father twice the age of his son ?*

Let x be the number of years *before* the present time when the father *was* twice the age of his son

$$\text{Then } 40 - x = 2(15 - x)$$
$$\text{or } x = -10$$

What does this Negative answer mean ?

It means that the father never *was* twice the age of his son in Time *past,* which is taken as *Positive* in the question : the epoch or event of his being twice the age of his son is to be found in Time **opposite** to the past : that is in Time **future.** He *was* not twice the age of his son ten years ago : but he **will be** twice as old as his son ten years *hence* : as is very clear : because in ten years the father will be 50 and the son 25

Hence if any event which has happened in Time **past** is **Positive :** the same event if it is to happen in Time **future** is **Negative**

Thus if a Product or Profit which *has been* realised in Time

past is distinguished as **Positive**: then a Product or Profit which **is to be** produced in Time **future** is **Negative**

Hence if any Economic Quantity, or Capital, of any form whatever produces Profits in a continuous series: the Profits which *have been* produced in Time *past* are **Positive**: and the Profits which *are to be* produced in Time **future** are **Negative**

And, consequently, the **Right** to the Profits already realised in the *past* may be distinguished by the sign +, and termed **Positive**: and the **Right** to the Profits which *are to be* produced in Time **future** may be distinguished by the sign —, and termed **Negative**

And the total Value of the Economic Quantity, or the Capital, comprehends **both** the Right to the profits already realised in the past and **also** the Right to the Profits to be produced in the future: or both the **Positive Right** and the **Negative Right**

The **Theory** *of the* **Value** *of* **Land**

25. Having now cleared away various misconceptions which have obscured the true understanding of the Theory of Credit, and explained the general principles of the use of the Algebraical Signs in the various sciences: we are now in a condition to perceive their application in Economics

We have already in Chapter I., explained the Theory of the Value of Land: and shown that the total Value of Land consists in the **Right** to the past products of the Land *together with* the **Right** to a series of **future** products from the land for ever. But though each of these future products, or profits, will only come into existence at definite intervals of time, they have each a **Present Value**: and the **Value** of the land is the **sum** of this series of **Present Values** of the future products for ever

Now if we assume the products already realised to be Positive, we have seen that by the general principles of the Theory of Signs the products *to be* produced in Time *future* will be **Negative.** And consequently the **Right** to the products already realised is **Positive**: and the **Right** to the products or Profits *to be* produced in Time future is **Negative**: and may be called the **Credit** of the Land: because the owner has

merely the abstract Right to the products when they are produced. And if any one buys this abstract Right, he merely does so in the **Belief** or **Expectation** that the land will produce them

A **Person** *exercising any Profitable Business is an* **Economic Quantity** *analogous to* **Land**

26. A merchant or trader of any sort exercising a profitable business is an Economic Quantity analogous to Land. He may have accumulated Money, the fruits of his past industry: but besides his accumulated Money, he possesses his **Skill, Energy, Abilities,** and **Character:** his **Personal Capital** or **Mercantile Character,** his **Capacity** to earn Profits in the **future,** as he has already done in the *past:* exactly as the Land has not only produced profits in the past, but has also the Capacity to produce profits in the future

The trader has also the Right to the profits of his future industry: and if the Right to the profits he has already earned is Positive: his Right to the profits he will earn in future is Negative

The **Value, Wealth,** or **Purchasing Power** of the trader, like the Value of Land, consists in his Property in the realised Profits of his *past* industry together with the Right to the expected Profits of his future industry: which of course are **Inverse** or **Opposite** to each other

And there are two ways in which a merchant may trade. He may buy goods with Money, the fruits of his past industry: or he may buy goods by giving in exchange for them a **Promise** *to* **pay,** or the **Right** *to* **demand** money at a future time, which is intended to be earned by his future industry

Personal or **Mercantile Character** used in this way is, as we have seen, in popular language termed **Credit:** and as **anything** which has **Purchasing Power** is **Wealth:** it evidently follows that **Money** and **Credit** are equally **Wealth**

When a merchant buys goods with his Promise to pay in future, it is a mere abstract Right, quite separate from any specific Money: it is therefore **Credit:** because the person who buys it

buys a mere abstract Right : in the *belief* or *confidence* that it will be paid in Money

Hence **Mercantile Skill, Capacity,** or **Character,** may be called **Personal Credit**

But as we have already seen that **Capital** is **any** Wealth, or Economic Quantity used for the purpose of Profit, it follows that **Money** and **Credit** may be equally used as **Capital**

If **Money** *is termed* **Positive Capital, Credit** *may be termed* **Negative Capital**

27. A merchant's Purchasing Power consists of his Money, his Rights to demand Money (*i.e.*, any Bank Notes, Credit, or Bills he may possess) and his **Credit**

If he buys goods with Money and sells them with a profit, he first replaces the Money he has expended : and the surplus is his Profit

If he buys goods with his Credit he incurs a Debt : when he sells the goods he first discharges the Debt he has incurred : and the surplus is his Profit

In either case the Profit consists in the excess of his Property at the end of the operation above what it was at the beginning

If he buys goods with Money, he makes Capital of the realised Profits of the past : if he buys them with Credit he makes **Capital** of the **expected Profits** of the *future*

In each case he makes a Profit : hence, by the definition, **Money** and **Credit** are equally **Capital:** but as they are **inverse** and **opposite** to each other, if **Money** is termed **Positive Capital, Credit** may be termed **Negative Capital**

By a somewhat curious coincidence of thought, the early Algebraists, not apprehending the meaning of the Negative roots of equations called them *fictitious* roots. Thus in the problem we gave of the father's and son's ages the answer came out **Negative :** which merely showed that the question should have been stated in the **opposite** way to which it was done : it should have been asked when the father's age **would be** twice that of his son, instead of when it **had been :** and therefore as the

Positive sign in that problem meant *past* time, the Negative sign meant *future* time. But this root though Negative, is equally a real root of the equation as the Positive one. So also many writers, seeing clearly the effects of Credit, call Money real Capital, and Credit *fictitious* Capital. But the fact is that like the Negative or fictitious root of the equation, it is equally real as the Positive one: only it is **inverse** or **opposite** to it. By using Money, the trader makes Capital of the realised Profits of the past: by using **Credit** he makes **Capital** of the **expected Profits** of the **future**

On Debts *as* Negative Quantities

28. We have seen that mathematicians call Debts "**Negative**" Quantities; but they are completely mistaken in their application of the term Negative in this instance. After the considerations we have presented, the real meaning of the term "Negative" as applied to Debts is perfectly clear and simple

An Obligation consists of two parts—

1. The Creditor's **Right to demand**
2. The Debtor's **Duty to pay**

These two Quantities are **Opposite** or **Inverse** to each other: the first is **Active** or **Positive**: and the second is **Passive** or **Negative**

Hence the Creditor's **Right** of action is the **Positive** Quantity, and the Debtor's **Duty to pay** is the "**Negative**" Quantity

Hence if a person has a balance of £500 at his banker's: and is bound to pay £50 at some given time: and therefore his Property may be represented by £500 — £50: it is not to be read as if he had only £450 at his banker's: but it is to be read in this way—he possesses £500, but coupled with the **Duty to pay** £50 at some given time

Hence in Economics the symbol (+ £100) always means actual money: or the Right to demand money, such as Bills or Notes: and the symbol (— £100) always means the **Duty to pay** money

We now clearly perceive the meaning of saying that

Money is a Positive Quantity: and Debt a Negative Quantity: it means that **Money** is a **Right**: but **Debt** is a **Duty.** And this exactly corresponds with the common Algebraical doctrine that Quantities passing through 0 change their sign. Because when a man has spent all his Money and his Property is then 0, and then runs into Debt, he has exhausted his **Right** and incurred a **Duty**

And an Obligation consists of two Opposite or Inverse Quantities, the Creditor's *Right of Action* (+ £100), and the Debtor's *Duty to pay* (— £100): and it may be conveniently denoted by this symbol

$$\left\{\begin{matrix} + \text{ £100} \\ - \text{ £100} \end{matrix}\right\}$$

In this case the **Debt** means the **Duty to pay**

It is now seen how necessary it is to observe the double meaning of the word Debt in Law and common usage: because when a **Debt** is called "**Goods** and **Chattels**," "**Merchandise**" or a "**Commodity**," it means the Creditor's **Right of action**: but when a **Debt** is termed a **Negative** Quantity it means the Debtor's **Duty to pay**

And as the Opposite or Inverse Quantities in an Obligation are created together: can only exist together: and vanish together: they are exactly analogous to Polar Forces

Section III

On the Transfer of Credit *or* Debts

29. We have now explained the real nature of **Credit,** and shown that it is the **Name** of a species of Incorporeal Property, which in Law, Commerce, and Economics, and in common usage is also called a **Debt.** And because it can be bought and sold, transferred, or exchanged, it is classed under *Pecunia, Res, Bona, Merx,* in Roman Law: under *χρήματα, ἀγαθὰ, πράγματα, οἶκος, ὑπάρχον, οὐσία, ἀφορμή,* in Greek Law: under Goods and Chattels, Merchandise, Vendible Commodities, in English Law: and therefore under the term **Wealth** in Economics. This Species of Property in this country exceeds any other, except the land: and we have now to explain how it is bought and sold, transferred or exchanged

When it is seen that a Bank Note is transferred from hand to hand like a piece of money, it might be supposed that any Debt might be sold and transferred with equal facility. There is, however, very considerable subtlety regarding the sale of Debts: and it is only by very slow and gradual degrees that they have become capable of being freely sold

If it were asked what discovery has most deeply affected the fortunes of the human race, it might probably be said with truth —*The discovery that a* **Debt** *is a* **Saleable Commodity**

When Daniel Webster said that Credit has done more a thousand times to enrich nations than all the mines of all the world, he meant the discovery that a Debt is a Saleable Commodity or Chattel: and that it may be used like Money: and produce all the effects of Money

We must now trace the origin and progress of the power of selling and transferring Debts, and place this branch of Mercantile Law on a solid foundation

On **Property** *held in* **Contract** *or on* **Jura in Personam**

30. We have observed in the first chapter that Property or Rights are of two species

1. The Property or Right in a specific Chattel : termed in Roman Law *Jus in Re*, or *in Rem*, without being related to any one else : this kind of Right is also called *Dominium*. When a person has such a sole and exclusive Right in any chattel, he may sell and transfer it to any one else at his own good will and pleasure, and without asking the consent of any one else. Money, cattle, timber, &c., are subject to this kind of Property : and hence the Proprietor of such chattels may freely alienate or sell them to any one else he pleases

2. Property held in Contract, or Obligation, called in Roman Law *Jus in Personam :* or a *Jus ad rem* (*acquirendam*) : where a person has a Right, not to any specific **Thing:** but only against a **Person** to **pay** or **do** something

A simple example of this kind of Property or Right, is the Contract or Obligation of Debt: where one person, the Creditor, has the Right to demand a sum of Money or any other Chattel from some **Person** the Debtor: or has the Right to compel him to **do** something. In such a case he has no Right to any Money or Chattel in the Debtor's possession : and in fact the Right of the Creditor against the Debtor exists whether the Debtor has any Money or not : and equally the Debtor's *Duty to pay* exists whether he has any Money or not. That is, the Contract or Obligation between the parties exists without any reference to any specific Money or Chattel

The former kind of Rights are called Real Rights or Corporeal Property : because they are the Right to certain specific Things or Chattels : the latter are called Personal Rights, because they are mere abstract Rights against a **Person :** and as the Person is always specified and definite, they may also be called **Nominate Rights.** But as they are wholly severed from any specific Chattels, they are a species of Incorporeal Property

31. But Property, or Rights held in Contract, or Obligation are of two kinds

(*a*) Where there is a Right to demand on one side, and Duty to perform on the other: such as the relation between Creditor and Debtor; or between Landlord and Tenant in modern times. Such a relation is termed a **Unilateral Contract**

(*b*) Where each party to the Contract has a Right to demand and also a Duty to perform. Such as the *Nexum*, or Obligation, between Lord and Vassal in Feudal Law: or that between Master and Servant at the present time. Such a relation is termed a **Bilateral** or **Synallagmatic Contract**

Formerly it was held universally that when Property was held in Contract of either sort, Unilateral or Bilateral, neither party could substitute another person for himself, without the consent of the other party to the Contract

This rule must manifestly hold good in all Bilateral Contracts, where each party has a Duty to perform. When one person agrees to accept a Duty from another person, he of course believes that that person can perform the Duty. But he cannot be compelled to accept another person to perform that Duty without his own consent. Neither if a person has undertaken to perform a Duty to one person can he be compelled to perform it to another person without his own consent

Thus so long as the Feudal Law retained its pristine rigour, neither the Lord nor the Vassal could substitute any one else for himself without the consent of the other party. Each of the parties had Duties to perform: the Vassal to render true and loyal service: and the Lord to render due protection and defence. And neither party could *attorn* the other, or turn him over to any one else without his own consent. As Sir Martin Wright says—"As the feudatary could not alien the feud without the consent of the Lord, so neither could the Lord alien or transfer his seignory or superiority to another without the consent of the feudatary. For the obligations of the superior and inferior were mutual and reciprocal: the feudatary was really as much interested in the conduct and ability of the Lord, as the Lord was in the qualification and ability of his feudatary. And as the Lord could not alien, so neither could he exchange, mortgage, or other-

wise dispose of his seignory without the consent of his Vassal. Again, as the vassal or feudatary could not alien, so neither could he devise or dispose of the feud by will, or by any means (when feuds were become hereditary) prevent or vary the feudal course of succession"

So in the case of Master and Servant at the present day : a master cannot transfer his household to any one else without their own consent, as if they were cattle or slaves. Neither can a servant substitute some one else in his place without his master's consent. So if any person contracts to do any work for another, he cannot substitute another person in his place without the consent of the other party

The same principle formerly held good when the Contract was Unilateral, as in the case of Creditor and Debtor. The Creditor could not transfer his Right of action against the Debtor in any one else : because the Debtor never agreed to pay any one else than his own Creditor. It is a rule of law as well as of common sense that no man can be made a party to a contract without his own consent : and that no one can stipulate for another without his authority

Thus the Digest says—"Alteri stipulari nemo potest"

"*No one can stipulate for another*"

Unless, therefore, the Debtor had agreed with the Creditor that he might transfer his claim, the Creditor had no power to guarantee his Transferee that the Debtor would pay him. Accordingly, both in Roman and English Law for a long period the Creditor could not transfer his Right of action against his Debtor, without the Debtor's consent, so as to enable the Transferee to sue the original Debtor

But both in Roman and English Law the Creditor might transfer his Debt, if the Debtor consented to it. If the three parties, the Debtor, the Creditor and the Transferee met together, the Creditor might transfer his Right to the Transferee, and the Debtor might agree to pay the Transferee. In such a case, the Transferee acquired a Right of action against the Debtor : the Debtor was released from the Debt to the original Creditor : and the Creditor was released from his Debt to the Transferee

This was one form of the Contract termed **Novatio** : because

a **New** Contract was made, which cancelled, discharged, and extinguished the old one

But nevertheless, though it may be true in theory that a Creditor cannot transfer his Right of action without the consent of the Debtor, the Creditor soon begins to insist upon the power of transferring his Right like any other Property. And there is a very good reason for this: because in the Obligation or Contract of Debt, there is manifestly a strong distinction between the parties, the Creditor and the Debtor. The Debtor cannot substitute another Debtor for himself, because the Creditor may not have the means of knowing the solvency of the substituted Debtor: as for instance no one can compel his Creditor to take payment of a Debt in the Notes of a country banker

Therefore, by the very nature of things, the consent of the Creditor is indispensible to the substitution of a new Debtor

But the case of the Debtor is different. If a person really owes a Debt and has the means of paying it, it cannot make the slightest difference to him whether he pays it to A or to B, so long as he can get a discharge for it: and is not liable to be called upon to pay it twice over

Hence it is evident that while the assignment of a new Debtor might seriously prejudice the Creditor: the assignment of a new Creditor can be no real prejudice to the Debtor

Both in Roman and English Law Creditors began to sell their Debts, and adopted certain legal devices to enable the Transferee to obtain payment from the Debtor, without his having consented to the transfer of the Debt: till at last they finally established their Absolute Right to do so without the consent of the Debtor. And thus Credits or Debts came to be included among Rights held in Dominion: and became as freely saleable as any other chattels

On the **Sale** *or* **Transfer** *of* **Debts** *in Roman Law*

32. It has been seen in the preceding paragraph that originally, whenever Property was held in Contract or Obligation, either Unilateral or Bilateral, neither party to the Contract could substitute another person for himself, without the consent of the other party

Thus in the Unilateral Contract of Debt, the Creditor could not sell or transfer his Right to any one else so as to enable the Transferee to sue the original Debtor without his consent. The Transferee could not sue the Debtor because he never made any promise that he would pay the Transferee; and thus there was no privity of Contract between them. The Transferor could make no engagement that the Debtor should pay the Transferee: because no person can stipulate, or make a contract, for another person without his consent

If, however, the Debtor consented and agreed that his Creditor might transfer his Right of action, it might be done. As, however, Debts are mere abstract Rights of action, not capable of manual delivery like material chattels, it was necessary for the three parties to meet together. With the consent of the Debtor, his Creditor transferred his Right of action to the Transferee, and the Debtor then promised to pay the Transferee. When this was done the Transferee acquired a Right of action against the Debtor: the Debtor was released from his Debt to his Creditor: and the Creditor was released from his Debt to the Transferee. A new Contract was created, which cancelled and extinguished the two preceding ones: and it was therefore called **Novatio:** and the assignment of the Debtor to the Transferee was termed a **Delegatio.** When this solemn Stipulation was completed, the Transferee might sue the Debtor in his own name, because there was now a privity of Contract between them

Creditors, however, at Rome perceived the convenience of being able to sell their Debts like other chattels, as it involved no real detriment to the Debtor. Accordingly, though they could not devest themselves of the legal estate in the Debt so as to enable the Transferee to sue the Debtor in his own name, in course of time certain legal devices were adopted so as to enable the Transferee to recover the amount of the Debt from the Debtor; even though the Debtor had not consented to the transfer of the Debt: so that the Transferee could not sue him in his own name. We have now to trace the steps by which a Creditor came at last to have the absolute Right to sell his Debt, without the consent or even the knowledge of the Debtor

33. The early simplicity of the Code of the XII. Tables

knew nothing of Trustees or Attornies. Every man was either the absolute Proprietor of a thing, or he was not. He in whom the legal estate was vested was termed *Dominus ex jure Quiritium*, or Proprietor by the Common Law of the Romans. It knew nothing of double or subordinate Rights. The Code of the XII. Tables allowed no man to sue in the name of another in private cases. He alone who was *Dominus ex jure Quiritium* might sue, and that in person. And as no man could sue another unless there was some Contract, *Nexum*, or Relation between them, the Transferee of a Debt could not sue the Debtor because there was no privity of contract between them

The Code of the XII. Tables was maintained in all its strictness for about 277 years. During this period the forms of writs were defined with great strictness. They were called *Legis actiones*, or, as we might say, Common Law writs: and as long as these lasted no one could sue on behalf of another, or in the name of another. Consequently, so far as we can understand, the Transferee of a Debt could maintain no action against the Debtor

But in the progress of time new wants, new rights, new interests, and new ideas grew up; and a great Equitable Jurisdiction came into existence to meet the new requirements. The supreme judicial Magistrates, the City and Foreign Prætors, were clothed with the power *adjuvandi; vel supplendi; vel corrigendi juris civilis gratiâ, propter utilitatem publicam.* The Romans had too deep a reverence for their Code, which Cicero declared to contain more utility in one chapter than all the libraries of the Philosophers, to permit the Prætor actually to abolish any of its Laws; but only to supply their defects, and extend their meaning. But new Rights and new Interests had grown up, which were not capable of being protected directly by the laws of the XII. Tables

Among these new Rights were Equitable Interests: one person might be possessed of the legal estate in certain things, but permit another person to enjoy their use or profit, without undergoing the formal solemnity of the transfer by mancipation or the *cessio in jure.* The original owner, therefore, possessed the *nudum jus Quiritium*, the mere legal right, while the

grantee possessed the profitable, equitable, or, as it was afterwards termed, the *bonitarian*, use

Thus, if a Creditor sold or transferred a Debt or Right of action, without the consent of the Debtor, he alone possessed the *nudum jus Quiritium*, but the Transferee possessed the Equitable Right to it: but he had no Right of action by the Code of the XII. Tables

In order to protect these Equitable Interests without directly contravening the fundamental laws of the XII. Tables, the Prætors gradually created the great system of Legal Fictions: and these Fictions were applied to protect the Equitable Rights of the Transferees of Debts

About the year 577 A.U.C., or 176 B.C., the *Lex Æbutia* abolished the old *Legis actiones*, which were not part of the Code of the XII. Tables, but only a series of writs framed by the Magistrates, so as to be adapted to them. New forms of writs were prepared by the authority of the Prætors, called *Formulæ*: and these were adopted and extended by two *Leges Juliæ*

By these new *Formulæ* parties were allowed to be represented by *Cognitores* or *Procuratores*, that is Attornies, who were allowed to sue for their clients. The Transferee was then allowed to sue as the Procurator or Attorney of the Transferee. Gaius gives the formula of the writ in such a case

The Prætor could only grant an *actio directa* or *vulgaris*, or common law writ, to the original Creditor: but he could grant an *actio utilis* or *fictitia*, or an equitable writ, to the Transferee of the Debt

When a Creditor sold or transferred his action, he was said *cedere* or *mandare actionem*. The Transferee was called *Procurator in rem suam*, or Attorney on his own behalf: he was acknowledged as the real plaintiff, *si in rem suam datus sit procurator, loco Domini habetur*: his mandate could not be revoked, and he owed no account to his principal

Such was the state of the Law regarding the sale or transfer of Debts in the time of Gaius, who is generally supposed to have written his Institutes in the time of the Antonines. They were the text-book of Roman Law throughout the whole Roman Empire when the Romans left Britain: and it is now supposed by many high authorities that they were to a great extent the

source and original of the Common Law of England. And the Common Law of England with regard to the Sale of Debts was exactly as is stated by Gaius: until it was superseded by the recent Supreme Court of Judicature Act

34. Some time after Gaius, the Emperor Alexander Severus, acting probably under the advice of Ulpian, published a constitution in the year 224 A.D., by which the absolute freedom of the Sale of Debts without the knowledge or consent of the Debtor was recognised and allowed

"Omnium rerum quas quis habere, vel possidere, vel **persequi potest** venditio recte fit"

"*Everything may be sold which one may have or possess, or has the* **Right to sue for**"

"Nomina quoque in diem vel sub conditione contracta veneunt"

"*Debts contracted to be paid at a certain day or at a certain event are saleable*"

"Nomina eorum qui sub conditione vel in diem debent, et emere et vendere solemus. Ea enim res est quæ emi et venire potest"

"*We are accustomed to* **buy** *and* **sell Debts** *payable on a certain event or on a certain day. For that is Wealth which can be bought and sold*"

"Nominis venditio etiam ignorante vel invito eo adversus quem actiones mandantur, contrahi solet"

"*It is usual to sell a Debt without the knowledge or even against the consent of the Debtor*"

"Certi et indubitati juris est ad similitudinem ejus qui personalem redemerit actionem, et utiliter eam movere suo nomine conceditur, etiam eum qui in rem actiones comparaverit, eâdem uti posse facultate"

"*It is clear and undoubted law that, just as he who has bought a Personal action may sue out a writ in his own name: so he who has bought a Real action has the same power*"

In the time of Gaius, the Transferee of the Debt could only sue as the Attorney of the Creditor or Transferor, as he was obliged to allege the *jus Quiritium*, or the legal estate of the Transferor: but the necessity of this was taken away by Jus-

tinian, who abolished the *nudum jus Quiritium*, which had become an absurd enigma which puzzled Law students, and then the Transferee could sue in his own name

"Ordinarium visum est post nominis venditionem utiles emptori (sicut responsum est) vel ipsi creditori postulanti dandæ actiones"

"*It is seen that it is usual to grant a writ on the sale of a Debt, either on the demand of the buyer (as has been decided) or of the Creditor himself*"

Thus, at length, the complete emancipation of a Debt from the general rule of law affecting Property held in Contract was effected: and it was made as completely and freely saleable as any other material chattel: and thus a Debt was removed from the category of Property held in Contract to that of Property held in Dominion

35. The Laws regarding the Sale of Debts enacted in the Pandects were fully adopted and confirmed in the Basilica: and thus they have ever since been the general Mercantile Law of Europe, except England, to which the legislation of Justinian never extended

Thus Azo, one of the earliest legal luminaries on the revival of learning in the West, says—

"De Actionibus autem venditis sciendum est quod omnes Actiones vendi possunt, sive sunt puræ, sive conditionales, sive **Personales**"

"*But with respect to the Sale of Actions it must be understood that all Rights of action, whether simple, or conditional, or real, or* **Personal,** *may be sold*"

36. This investigation clears up a difficulty which has puzzled some modern writers. The earliest Bills of Exchange extant contain no words of negotiability: and yet we know as a fact that they were negotiated. And several writers have endeavoured to discover when Bills of Exchange were first made negotiable. Some have supposed that it was done by Cardinal Richelieu. But all obscurity and doubt has now been cleared away. Bills of Exchange required no words of negotiability, because they were so in their very nature by the general Mercantile Law of Europe

And this continued to be the general Law of Europe, as may be seen in any of the great Civilians, from whom we need not quote. As an instance of this, we may mention the trouble which the irascible Florentine artist, Benvenuto Cellini, met with in his visit to Paris. "It is customary in France to make the most of a suit which they commence with a foreigner or with any person who is not used to law transactions: as soon as they have any advantage in the process, they find means to sell it to certain persons, who make a trade of buying lawsuits." This passage shows that the law was not a dead letter

This also explains a fundamental distinction between the Common Law of Scotland and England as to Bills of Exchange. By the usual Mercantile Law of England, unless a Bill of Exchange was drawn payable to "order" or to "bearer": that is, made transferable by the express consent of the Debtor, it could not be transferred so as to enable the Transferee to sue in his own name. But by the Common Law of Scotland a Bill of Exchange does not require any words of negotiability to be inserted in it: it is transferable and negotiable by its very nature. And a Scotch Bill of Exchange is negotiable in England without any words of Negotiability: and the reason of this difference is, that the Common Law of Scotland is the Roman Law of the Pandects and the Basilica, which is the general Law of Europe: while the Common Law of England is the Roman Law of Gaius

Equity however, as we shall see in the next section, always adopted the Law of the Pandects, which allowed the free Sale of Debts: and, consequently, though the Transferee of a Bill of Exchange containing no words of negotiability could not have an Action of Law against the acceptor, he might always sue him in Equity, in case of need. But by the Supreme Court of Judicature Act, it is enacted that the Rules of Equity shall prevail over those of Common Law whenever they conflict: and, consequently, Bills of Exchange are now negotiable in their very nature, and do not require words of negotiability

Moreover, by the Common Law of Scotland, a Debtor is bound to accept a Bill drawn upon him by his Creditor, and is liable to an action for non-acceptance. But of course this was never

the case in England: and this distinction is preserved by the Bills of Exchange Act of 1882

On the **Principles** *of* **English Law** *and* **Equity** *relating to the* **Sale** *or* **Transfer** *of* **Debts**

37. We have now to investigate the Principles of English Law and Equity relating to the Sale or Transfer of that stupendous mass of Property which consists of Choses-in-action, which in its various forms is second only to the land in magnitude. And we shall have to do this with some fulness, as in the case of *Goodwin* v. *Robarts*, the greatest Mercantile case of modern times, the Court of Exchequer Chamber unanimously held that the whole Judges of England had been mistaken as to the fundamental principles of the Common Law of England relating to the Transfer, or Sale, of Choses-in-action. This case reversed and annulled a whole series of cases decided by Lord Holt and the Court of King's Bench from 1692 to 1704, upon which the opinion of all modern Judges had been based; and which had been assumed as correct by all the standard writers on Mercantile Law. And we shall have to be the more explicit on this subject, because the effect of the case seems to be hardly even yet understood: and it has not yet made its way into the text-books of Mercantile Law

Every Lawyer knows the oft quoted saying of Lord Coke in *Lampet* v. *Starkey* (10 Coke, 46 b)—"And first was observed the great wisdom and policy of the sages and founders of our Law, who have provided that no Possibility, Right, Title, nor Thing-in-action shall be granted or assigned to '**Strangers**,' for that would be the occasion of multiplying of contentions and suits, of great oppression of the people, and chiefly of the terre-tenants, and the subversion of the due and equal execution of justice"

Now without inquiring yet what Lord Coke's qualification of a "**Stranger**" may mean, this *Dictum* has been repeated a multitude of times by a long line of Judges both at Law and in Equity, usually with the qualification omitted, so that it has been made to appear in the broadest and most unqualified manner possible that a *Chose-in-action*, or a Debt, cannot, by the Common Law of England, under any circumstances be assigned so as

to enable the Transferee to sue the Debtor in his own name. And also as if there were some peculiarity as to the non-alienability of *Choses-in-action*, distinguishing them from other Property in this respect

38. In the first place it may be said with all due regard to the fame of Lord Coke that the reason he assigns for the non-alienability of Debts, that it was on account of the litigation it might give rise to, and the subversion of the due and equal administration of justice, cannot be received as a satisfactory ground at the present day

The true reason was far deeper, and of a far more general application, and has already been sufficiently explained. It was simply thus—"That whenever Property is held in Contract, or by parties related to each other by any Bond, *Nexum*, or Obligation, neither party can substitute another person for himself, at his own mere will and pleasure, and without the consent of the other party. Futhermore, that if a Debtor has promised that he will pay a sum of money or anything else, or do some service to his Creditor, the Creditor cannot stipulate, or Contract, that his Debtor shall pay that something, or do that service, to any one else, without that Debtor's authority and consent"

39. Moreover, so far from the non-alienability of *Choses-in-action* being an exceptional rule of Property, as it was in Roman Law, the fact was that it was the rule applicable to the enormously greater proportion of Property under the Feudal System: and the rule of free alienability only applied to the comparatively insignificant amount of Personal Property

The essence of the Roman polity was equality and absolute dominion. By the Common Law of the Romans every man was the absolute proprietor of his possessions, including his wife, children, and slaves. He did not live in a state of contract with them or with any one else. As regarded his *familia*, he was *Dominus ex jure Quiritium:* as regarded his fellow citizens, he was their equal. Consequently, the state of Contract between Roman Citizens was comparatively rare: principally confined to the case of Creditor and Debtor; and as we have already seen, Debts, by the early Roman Law, were not assignable without the consent of the Debtor

But the whole structure of Feudal Society was essentially different from Roman Equality and Dominion. The very essence of Feudalism was that the *Dominion* of the soil vested in the Sovereign, as the representative of the nation. Absolute Property in the soil, either the Dominion of the Romans, or the Allod of the Germans, was impossible in a private person—"It is so absolute a maxim, or principle, of the Law of Tenures, that all the lands in England are holden either mediately or immediately of the King, that even the King himself cannot give lands in so absolute and unconditional a manner, as to set them free from tenure," says Wright

The Sovereign granted Feuds to his followers, first during pleasure, then for life, and then in perpetuity, but always on the express condition of certain definite services being rendered. The tenants were consequently in a state of contract with him. They, in like manner, granted out parcels of their tenures to their vassals on certain specified conditions: and these vassals again would have still further divided their grants if they had not been restrained by Law

40. The result of this was that the whole State of Society was one of Contract. The structure of Roman Society was essentially level; the structure of Feudal Society was essentially pyramidal. Every one from the highest to the lowest was fixed in a state of Contract. The intermediate ones were in a state of double contract, both with those above them and those below them. All Feudal property was, therefore, of the nature of *Choses-in-action*. The consequence was that no one could change his position, or alienate his property, by substituting a stranger for himself, without the consent of the other parties to the contract, as we have seen was said by Sir Martin Wright

Thus in a state of pure feudalism, the tenant of land could not substitute another person for himself at his own will and pleasure, without the consent of the other party, any more than a Creditor or Debtor could substitute another person for himself without the consent of the other party, and for the very same reason—that it was Property held in Contract, or Obligation

Hence, the law relating to *Choses-in-action* was not peculiar to them: it was exactly the same as applied to the whole land of the

kingdom, and for the very same reason. It was simply one example of a universal principle which might be illustrated from many other countries if necessary

Appointment of a **Royal Commission** *to prepare a* **Digest** *of the* **Law**

41. In 1867, the Government of the day appointed a Royal Commission to take measures to prepare a Digest of the Law for the guidance of the Courts of Law, in contemplation of the fusion of Law and Equity, which was subsequently enacted by the Supreme Court of Judicature Act, in 1873, which came into operation on the first November, 1875

Among the Commissioners were Lord Chancellor Cranworth, Lord Westbury, Lord Cairns, Lord Hatherley, Lord Selborne, and Lord Penzance—to mention those only of Judicial rank. The Commissioners determined to prepare Digests of three branches of the Law as specimens of a Digest of the whole Law : and they invited members of the Bar to offer themselves to prepare these specimen Digests under their superintendence. One of the branches of Law selected was Bills of Exchange, Bank Notes, &c.

This Digest was not to be a mere register of decisions. It was expressly intended to be a declaration of **the Law** on all points it referred to : and, consequently, it necessarily involved the investigation and final settlement of all disputed points, contradictory doctrines, and conflicting cases

The author entered into this competition, and in preparing his paper for the consideration of the Commissioners, it occurred to him that the doctrines generally current in the profession as to the Right of Transferring *Choses-in-action*, or Debts, at Common Law, were contradictory

While it was strenuously asserted that *Choses-in-action*, or Debts, were absolutely inalienable at Common Law, so as to enable the Transferee to sue the original debtor, it was perfectly acknowledged that, in some cases, it was quite legal to Transfer a Debt : and that the Transferee might sue the original Debtor

Thus it was perfectly acknowledged that if the Debtor, his Creditor, and the Transferee met together ; the Creditor might, with the Debtor's consent, transfer his Right of action to the

Transferee: the Debtor might then agree to pay the Transferee instead of his primary Creditor. When this was done, a valid Contract was created between the original Debtor and the Transferee, which cancelled and extinguished the two preceding contracts between the Debtor and his Creditor: and between the Creditor and the Transferee: and the Transferee might then sue the original Debtor, because there was now a privity of Contract between them

This was exactly the mode of transferring a Debt laid down in Gaius: it is described by Bracton as a **Novation**: and it is affirmed in the case of *Tutlock* v. *Harris* (3 T.R., 180). Buller, J., said—"If A owes B £100: and B owes C £100, and the three meet: and it is agreed between them that A shall pay C the £100, B's Debt is extinguished: and C may recover that debt against A." And this doctrine was affirmed in several other cases: and is undoubted Law

Thus it was clear that the broad unqualified doctrine that Debts were absolutely incapable of being alienated at Common Law was untenable

But though it was admitted that a Debt might be sold and alienated to a certain definite and specified person with whom the original Debtor entered into a contract, it was strenuously maintained that it was contrary to Law to issue an Obligation payable only to some unspecified and indefinite person, such as the "bearer": it was alleged that no contract could be created between the original Debtor and such indefinite "bearer," or "assignee," giving the latter an action against the Debtor

As the very purpose of the Digest was to declare authoritatively the true doctrine of the Common Law on this point, it became necessary to trace this doctrine through the whole series of Reports to their earliest sources

This involved the general Question—"In what cases can the party to a Contract transfer his Right to a third person, so as to enable the Transferee to sue the original Debtor?"

Now, as we have already observed, that under the Feudal System almost every person was fixed in a state of Contract with some one else, English Law is peculiarly rich in cases which determine this question

In a state of pure Feudalism the tenant of land could not substitute another person for himself at his own will, and without the consent of the other party : any more than a Creditor or Debtor could substitute another person for himself without the consent of the other party : and for the very same reason—that it was Property held in Contract, or Obligation

Hence, the Law relating to *Choses-in-action* was not peculiar to them : it was exactly the same as applied to the whole land of the kingdom

A strict Military Feud was, by its very essence and nature, inalienable : and such only are called proper Feuds by Feudal writers. But gradually this rigour was relaxed, and Feuds were created alienable and saleable. Wright says—"All Feuds, therefore, that are sold or bartered for any immediate or contracted equivalent ; or are granted free of all services : or in consideration of one or more *certain* services (whether military or non-military): or upon a Cens: or Rent : in lieu of services : and all such Feuds as are by express words in their creation, or constitution, **alienable,** are improper Feuds, and are severally treated of by the Feudists under the head of Feuda *emtitia,* franca, censualia, *emptitoria, alienabilia,* &c."

Thus, though no doubt a Feud was not originally alienable, yet wherever the Grantor created or constituted the Feud alienable, by granting it to the Grantee and his **Assigns,** it was assignable, and the Assignee might sue the Grantor in his own name

Thus, in *Mallory* v. *Symond* (Y. B. 9, Edw. II., p. 292, 443), the Assignee of a Charter was found to have a Right of action against the Grantor, who granted it to the Grantee and his Assigns

It also became common for a lessor to grant leases to the lessee, and his assigns, and such leases were assignable

42. The original contract between Lord and Vassal was Bilateral : because it involved Rights and Duties on both sides : and, consequently, the Lord could not alienate his seignory without the consent of his Vassal : he could not turn over, or **Attorn,** as it was termed, the homage or service of his Vassal to another

person against his will : and if the tenant refused to *attorn*, the grant was void. Just as a Creditor could not attorn his Debtor to another person without his consent. But if the vassal agreed to the transfer of the seignory, he was said to *Attorn* to the new seignor. By this public declaration he recognised the right of the new seignor to his homage or service

But when internal peace and security were established, the relation between Lord and Vassal gradually changed from a Bilateral to a Unilateral contract. The vassal came to look to the general law of the land for protection to his person and property, instead of to his immediate lord : and all the various services of the vassal were reduced to the simple payment of **Rent**

Consequently, the relation between Lord and Vassal was reduced to the simple one of Creditor and Debtor : or that of Landlord and Tenant at the present day

When, then, the relation between Landlord and Tenant was reduced to a simple Unilateral contract, the same principle began to be applied to it as had already been applied in Roman Law to that of Creditor and Debtor. It was no real prejudice to a Debtor to whom he paid his Debt ; as long as he was not called upon to pay it twice over. So it was no real prejudice to a Tenant to whom he paid his Rent : so long as he was not called upon to pay it twice over. The doctrine of Attornment came to be felt to be a burdensome restraint on the alienation of land : and several methods were adopted to evade it. In all cases where the Statute of Wills and the Statute of Uses applied, attornment was declared to be unnecessary. And many other cases are given in Comyn's Digest *Attornment* L

Between the time of Littleton and Coke a further step was made : for, in several cases, if the tenant refused he might be compelled to attorn

At last, the doctrine of attornment, as regarded grants and conveyances, was entirely swept away and abolished by the Act, Statute of Anne, 1705, c. 16, ss. 9, 10 : which was drawn by the great Lord Somers : and estates in Land were made freely transferable without the consent of the tenant

This Act of Anne is exactly parallel with the Statute or Constitution of Alexander Severus, already mentioned, declaring that

a Creditor might freely sell his Debt with the knowledge or even against the consent of his Debtor

By these means, in the course of many centuries, a complete revolution was effected in the Law relating to estates in land. Whereas they were originally inalienable, unless specially created so : at the present day all estates in land are freely alienable, unless granted with an express stipulation to the contrary, and even in many cases such a stipulation is void

On the **Rules** *of the* **Common Law** *of England relating to the* **Transfer** *of* **Choses-in-action**

43. We have now to investigate the Rules of the Common Law of England relating to the Transfer of Credits, Debts, or *Choses-in-action*

Glanville, the earliest writer on the Common Law, gives us much information as to the mode of proceeding for the recovery of Debts in the King's Court, but says nothing of their transfer

Bracton adopts the division of Property into Corporeal and Incorporeal : and afterwards considers Obligations. He says :— "We must consider, in the first place, what an **Obligation** is, and how it is contracted : and through what words and through what persons an Obligation is acquired : and in what way it is dissolved and got rid of : and in what way after it has been dissolved it may be renewed : and how it may be **Transferred** to another party : and how one Obligation may be changed into another "

And in describing the various methods by which an Obligation is extinguished, he says :—"Likewise by **Novation** : as if the Obligation has been **Transferred** from one person to another who has taken the Obligation on himself. For by the intervention of a new Person, a new Obligation arises, and the first is extinguished by agreement : as when a person has taken upon himself the Obligation of another "

Thus, Bracton distinctly provides for the **Transfer** of Obligations : and lays down that it can be done by the consent of the parties : and it is clear that if it be admitted that Obligations may be transferred by the consent of the parties to them, it is

wholly immaterial whether that consent is given orally or in writing

Thus, Bracton expressly states that if the Debtor, the Creditor, and the Transferee agree to it, the Debt or *Chose-in-action* may be transferred. And this is exactly the Doctrine laid down in Gaius, which was the text-book of Law at the time the Romans abandoned Britain. But from the entire omission by Bracton of the whole of the Roman Doctrine of the Pandects and the Basilica, that Debts, or Choses-in-action might be freely sold and transferred without the knowledge, and even against the consent, of the Debtor, we may be sure that this was not allowed by the Common Law of England

44. As Feuds and Charters came to be granted to the Grantee and his Assigns, which were held to be assignable, so as to give the Assignee a Right of action in his own name against the Grantor : so Personal Annuities, which were more distinctly recognised as *Choses-in-action*, came to be granted in exactly the same form : and it was expressly decided in a long series of cases that the Asignee of an Annuity created assignable by the words of the Grantor, or Obligor, had a Right of action in his own name

Thus, in 1368, three priests, the Assignees of John Bishop of Hereford, brought an action against the Abbot of T. for arrears of an Annuity, which he had granted to the grantee and his assigns. It was pleaded at the bar that *Choses-in-action* were not assignable at Common Law (Y. B., 41 Edw. III., p. 27) : but the Court held that they might : and that the Assignees had a Right of action

In the reign of Edward IV. it was held in two cases (Y. B. 5, Edw. IV., long quinto : p. 42), and (Y. B. 21, Edw. IV., p. 20, c. 28) that the Grantee of an Annuity had the right to grant it over

In the case of *Baker* v. *Brook* (Benloes, c. 55., Dyer, 65. 1) Brook, the parson of Bosworth, granted an Annuity to the Grantee and his Assigns during his lifetime. The Grantee assigned it, and the Assignee brought an action against the Grantor for arrears. The defendant demurred, alleging that such an Annuity could not be granted over. It was argued that it was against the very nature of an Annuity to be assignable over : and that it was a matter of common learning that a *Chose-in-action*

could not be granted over by a private person. But Montague, Chief Justice, said that the Court were unanimously of opinion that the count was good, and the Assignee might sue the Grantor

And, referring to this case, Coke says (Co. Litt., 144 c):—"A writ of Annuity is a writ for the recovery of an Annuity. An annuity is a yearly payment of a sum of money granted to another, in fee, for life, or years, charging the person of the grantor only. But not only the Grantee, but his heir, and his and their **Grantee** also, shall have a writ of annuity"

Thus, Coke evidently considered that the case was decisive of the question that the Assignee of an annuity, created assignable by the grantor himself, may sue the grantor in his own name

This doctrine was again affirmed by the Common Pleas in a case in his own reports. In *Maund* v. *Gregory* (7 Co. Rep., 28 b), in 1602, Gregory had by deed granted a rent-charge for his life to one and his assigns. The grantee assigned it over, and the assignee distrained for arrears. It was resolved by the Court that a Rent-charge, or *Chose-in-action*, granted to one and his assigns, may be assigned over by the express words of the grantor who granted it to him and his assigns ; for *modus et conventio vincunt legem*

This doctrine was again affirmed by the Common Pleas in *Gerrard* v. *Boden* (Hetley, 80), in 1628. Gerrard, the assignee of an annuity, sued Boden, who had granted the annuity to a person and his assignees. It was argued that it was merely contrary to the nature of an annuity to be assigned over to another : and that it is common learning that a thing-in-action cannot be assigned over : unless it be the grant of the King. But Hutton, J., said—"We are agreed that the annuity may be granted over." And since this case the doctrine has never been questioned, till in some recent cases, which we shall reserve for future discussion

All these Annuities were, of course, deeds under seal : and, consequently, this uniform series of decisions held that a sealed instrument was transferable to assignees, when expressly created so by the Obligor

An annuity is the Promise to pay a series of payments ; but with the rise of Banking, in the time of the Commonwealth, sealed Notes of the bankers, promising to pay a single sum to payee, "or bearer," came into general use. In *Shelden* v. *Hentley*

(2 Show., 1601), in 1680, an action was brought on one of these sealed Notes payable to bearer: and its legality was fully recognised by the Court. The Court said—"When a man promises to pay 'the bearer' of the Note, any one that brings the Note shall be paid": and Jones, J., said—"The custom of merchants made that good"

In *Hinton's* case (2 Show., 235), in 1681, the bearer of a Bill of Exchange, payable to bearer, was held entitled to recover on proving consideration

In *Williams* v. *Williams* (Carth., 269), in 1693, a Promissory Note was declared upon as *Billa*, or *Nota*, and within the custom of merchants, and the declaration was held good

In *Lambert* v. *Oakes* (1 Ld. Raym., 443), in 1699, a Promissory Note, payable to payee or order, was acknowledged to be legal

In *Carter* v. *Palmer* (12 Mod., 380), the Court agreed that a Promissory Note, made payable to payee or order, was legal: although they would not allow a Note made payable to "bearer" only, to be so

In *Bromwich* v. *Loyd* (2 Lutw., 1583), a Promissory Note, payable on demand, was declared upon as a Bill of Exchange; and Treby, C. J., fully recognised it as such, and said it was legal

Having now brought the subject to this point, at which, by a uniform series of decisions, extending through 350 years, the Courts had decided that Obligations in either form of Orders to pay, or Promises to pay, when made payable to the payee and his assigns, or to order, were legal documents, and that the Assignee or Transferee might sue the Obligor in his own name, we have to consider the case in which the Obligor had not given this consent

Case in which the Debtor *had not assented to the* Transfer *of the* Debt

45. The next point to be considered is how the difficulty, where the Debtor had not given his consent to the Transfer of the Debt, was overcome at Common Law. In Roman Law, as we have seen, the Transferee was not able to sue, so long as all claimants were obliged to sue in person. But when persons were allowed to sue by Attornies, the Prætor, or Equity Judge, allowed

the Transferee to sue as the Attorney of the Transferor : and to retain the proceeds for himself

But English Law never had such a restriction : and as early as Henry VI., we find that the Assignee might sue in the name of the Assignor : or the Assignor might sue as Trustee for the Assignee. And both Law and Equity compelled the Assignor to allow the Assignee to use his name

General Results *of the preceding* Cases

46. Having arrived at this stage of the question it is advisable to understand clearly the results which they establish. They are these—

1. That at Common Law a Creditor cannot transfer his Debt, or Chose-in-action, to a third person without the consent of the Debtor, so as to enable the Transferee to sue the Debtor in his own name

2. That whenever the Debtor, or Obligor, consents to the transfer of the Debt, or *Chose-in-action*, either **Orally** (*i.e.*, either by simple verbal consent, or in a simple writing, such as an ordinary Bill or Note), or in **Writing** (which, in Law, always means a **Deed, Bond,** or **Specialty**), the Creditor may Assign or Transfer it, and the Assignee or Transferee may sue in his own name

We can now perceive, we think, the true meaning of Coke's expression,—that a *Chose-in-action* could not be assigned to a "stranger." Considering that he himself declares in his Institutes that the Assignee of an Annuity created assignable could sue the Grantor, it seems to be clear that he did not consider such an Assignee as a "stranger" to the original Grantor. That by himself creating the Obligation in such a form, he acknowledged the Contract made with the Transferee : and that the word "stranger," in Coke's sense, can only refer to Obligations not created transferable by the Obligor. And that this doctrine, which is simple common sense, has been magnified and exaggerated into the dogma that at Common Law it is illegal to create transferable Obligations, or floating Rights of action, in any form

Decisions in the Court of King's Bench and the Court of Session that Promissory Notes were not included under Bills of Exchange: and were illegal at Common Law

47. But soon a strange conflict of decisions arose: and in a series of decisions it was held that the "bearer" had no Right of action against the Acceptor of a Bill or the Maker of a Note, made payable to "bearer": that Promissory Notes were not within the custom of merchants: and could not be declared upon as Bills of Exchange: and that they were illegal at Common Law

In *Hodges* v. *Steward* (1 Salk., 125), in 1691, it was held that the "bearer" of a Bill (which in this case was evidently a Note) made payable to A. B. or bearer, had no action against the maker

In *Horton* v. *Coggs* (3 Lev., 299), in 1691, it was held that a Promissory Note made payable to A or "bearer" was not valid in the hands of the bearer against the maker

In *Nicholson* v. *Sedgwick* (1 Ld. Raym., 18), in 1698, this doctrine was again held

In *Cogg's* case (Comber., 406), in 1699, it was again held that the "bearer" of a Note payable to bearer had no action

In *Carter* v. *Palmer* (12 Mod., 380), in 1701, it was held that a Promissory Note made payable to "bearer" only was not negotiable, and not within the custom of merchants: but Holt, C.J., and the Court agreed that a Promissory Note drawn payable to A. or "order," was negotiable within the custom

In *Jordan* v. *Barloe* (3 Salk., 67), in 1701, the same doctrine was affirmed

Up to this time, the legality of Promissory Notes made payable to A. or "order" had not been questioned. It was only the legality of those drawn payable to A. or "bearer": because it was held that a Note delivered in that form conferred no right to A. to indorse it away. The Courts, after allowing that the "bearer" had the right to sue the maker in some cases, at last reversed this opinion, and held that the "bearer" had no action against the maker: but they held that an Indorsee might sue his Indorser: because every Indorsement is a new drawing

Moreover, up to this time Promissory Notes had been usually declared upon as Bills of Exchange: and in the legal phraseology of those times which had not been as yet definitively

settled, what in modern languages is invariably termed **Making** a Note, was very frequently termed **Drawing** a **Bill** : and the *Maker* of the Note was termed the *Drawer*

But in *Clerke* v. *Martin* (2 Ld. Raym., 787), in 1703, Lord Holt laid down the doctrine that Promissory Notes in any form whatever were illegal. In this case a Promissory Note, drawn payable to A. B. or order, was declared upon as a Bill of Exchange, as was then the usual practice ; and had been admitted by Holt himself in several cases

But now he set his face entirely against Promissory Notes in any form whatever. The report says :—"But Holt, C.J., was *totis viribus* against the action, and said this note could not be a Bill of Exchange : that the maintaining of these actions upon such Notes were innovations upon the rules of the Common Law, and that it amounted to setting a new sect of **Specialty**, unknown to the Common Law, and invented in Lombard Street, which attempted in these matters of Bills of Exchange to give laws to Westminster Hall : that the continuing to declare upon these Notes upon the custom of merchants proceeded from obstinacy and opinionativeness." And the whole Court agreed that Promissory Notes of any form were illegal at Common Law

In *Cutting* v. *Williams* (7 Mod., 155), in 1703, the Court unanimously adhered to the decision in *Clerke* v. *Martin*. Holt said that he had proposed it to all the Judges whether a declaration upon a Promissory Note could be supported : and they were all of opinion that a Declaration upon a Promissory Note upon the custom of merchants was void, as it made a Note amount to a **Specialty**

The last case is that of *Buller* v. *Crips* (6 Mod., 29) in 1704. The Indorsee of a Note drawn payable to A. B. or order, brought an action against the Maker or Drawer, and declared upon it as a Bill of Exchange within the custom of merchants. But Holt had now decidedly put his foot down, and had drawn all the other Judges over to his opinion. He said : "The notes in question are only an invention of the goldsmiths in Lombard Street, who had a mind to make a law to bind all those who did deal with them : and sure to allow such a note to carry any lien with it, *were to turn a piece of paper, which in law is but evidence of a parol contract into a* **Specialty** : and besides, it would empower

one to assign that to another which he could not have himself : for since he to whom this note was made could not have this action, how can his Assignee have it ? And these notes are not of the nature of Bills of Exchange: for the reason of the custom of Bills of Exchange is for the expedition of trade and its safety, and likewise it hinders the exportation of money out of the realm"

On a subsequent day, Lord Holt said that he had desired to speak with two of the most famous merchants in London to be informed of the mighty ill consequences that it was pretended would ensue by obstructing this course, and that they had told him it was very frequent with them to make such Notes : and that they looked upon them as Bills of Exchange ; and that they had been used for a matter of thirty years : and that not only Notes, but **Bonds** for money were transferred frequently, and indorsed as Bills of Exchange

As the decision of the Judges that Promissory Notes were illegal in any form whatever now seemed unalterable, the Act Statute, 1705, c. 7, was passed, which having recited that it had been held that Notes in writing, signed by the party who makes the same, whereby such party promises to pay to any other person or his order, any sum of money therein mentioned, are not assignable or indorsable over within the custom of merchants ; and that neither the payee himself nor his indorsees could maintain an action on such notes ; it enacted that all Promissory Notes made payable to any person or to order, or to bearer, should be placed in all respects on the same footing as Inland Bills of Exchange. And it has been frequently supposed since that Promissory Notes were first legalised by this Act

48. In Scotland the Court of Session adopted the doctrine of the King's Bench, that Promissory Notes were not Bills of Exchange : and were illegal at Common Law. In order to remedy this, the Act Statute, 1772, c. 72, placed Promissory Notes in Scotland on the same footing as Bills of Exchange

49. Having now detailed these celebrated cases, we must state the ground upon which they were founded

Lord Holt distinctly admitted that **Deeds, Bonds,** or **Specialties** were assignable or indorsable ; and that the

Assignee or Indorsee might sue upon them in his own name; thereby confirming the whole series of cases we have adduced from 1368 downwards

His objection was, that by admitting simple Promissory Notes to be transferable, it was giving a mere parol contract the same rights as a Specialty, to which it might be said—Why not?

A Specialty doubtless does not require a Consideration: and a Parol Contract does: but why should that affect their Transferability?

At this time there was a great conflict of opinion as to whether Indorsement was necessary to transfer the title or the Property in the instrument. By some incomprehensible subtlety it was held that a Note made payable to A. or bearer gave the payee no authority to indorse. But this was obviously untenable

It is also to be observed that the merchants whom Lord Holt consulted, testified that it was then usual in the City to transfer Bonds by Indorsement exactly as if they were Bills of Exchange

We shall presently see the important bearing these facts and doctrines have with respect to the dogmas held by the judges in recent times

50. Although Lord Holt's authority had induced all the judges to yield to his opinion—against their own former opinions—these cases were subsequently challenged by the highest authority in Mercantile Law of the day. In *Grant* v. *Vaughan* (1 Black., 485), in 1764, Lord Mansfield said—"I think, upon the merits, all the cases in King William's time are founded on mistaken principles. The first struggle of the merchants, which made Holt so angry with them, to make inland bills of exchange in the nature of **Specialties**, and to declare upon them as such, was certainly wrong on their parts. But the reasons given by the Judges who held that no action can be brought by the holder of such a bill payable to bearer, are equally ill-founded. First, it is said they were never intended to be negotiable: *Cujus contrarium est verum.* For when payable to 'A. B. or bearer' they are clearly intended to be transferred in the most easy manner possible even without indorsement. . . . In *Hinton's* case, 2 Show., 235, in the latter end of Charles II.'s time, it is taken for granted that such bills are recoverable by the bearer if he comes to them *bonâ fide.*

To this succeeded all the cases in King William's time, which adopted the other erroneous principle "

Wilmot, J., said—"The word *bearer* is only a description of the person with whom you contract. A name is only a like description. The contract is to pay the bill, either to you or to the person to whom you shall deliver it, or to whom he shall deliver it *in infinitum*. The case in Shower is a clear authority that a *bonâ fide* holder may recover. The subsequent cases are ill founded and strike at the root of credit "

Thus it is clear that the case of *Grant* v. *Vaughan* distinctly and directly over-ruled the whole of the cases decided by Lord Holt. And in his judgment Lord Mansfield especially allowed that Specialties, or Deeds, or Bonds were capable of being made assignable or indorsable, and that the Assignee or Indorsee might sue upon them. But he also declared that the same principle held good respecting mere parol contracts like ordinary Bills of Exchange and Promissory Notes

The effect of the case of *Grant* v. *Vaughan* is to reverse and over-rule all the cases decided by Lord Holt, and to rehabilitate and restore the authority of the preceding cases, and to restore the doctrine of the Common Law, as it was before Holt's cases—namely, that it was strictly legal at Common Law for any person whatever to issue transferable Obligations either in the form of Bonds, Deeds, or Specialties, or that of Simple Contracts : that they were equally transferable : and that the Transferee might sue in his own name equally in either case

51. Even Lord Kenyon, who was a well-known stickler for the most rigid principles of the Common Law said, in *Brown* v. *Harraden* (4 T. R., 148) in 1791—"It is not necessary now to consider whether or not Lord Holt was right in so pertinaciously adhering to his opinion that before the Statute of Anne no action could be maintained on Promissory Notes as Instruments, but that they were only to be considered as evidence of the Debt. . . The authority which his opinion had in Westminster Hall made others yield to him "

Notwithstanding that the case of *Grant* v. *Vaughan* distinctly reversed and overruled Lord Holt's cases, it has been supposed by

all modern Judges and text writers that they were correct, and that Promissory Notes are purely the creation of the Act of Anne in England and of the Act of George III. in Scotland

52. In *Fenner* v. *Meares* (2 W. Black., 1269), in 1779, Meares had granted a Respondentia Bond to Cox, assignable by Indorsement. Cox indorsed it to Fenner ; and Fenner sued the Obligor. It was the first instance of the Indorsee of a Respondentia Bond sueing the Grantor

Blackstone, J., said—"The promise made by Meares is sufficient. Whatever would have been due to Cox is by the assignment transferred to Fenner. He ran the same hazard and is entitled to the same benefit. And I see no reason why Meares should be in a better condition merely because his Creditor is changed"

Nares, J.,—"I think this is a particular promise to the Assignee whenever any such should be"

De Grey, C. J.,—"At the trial I gave an opinion that in point of Law this action was maintainable : and I have seen no reason to change it. It would clog these securities, and be productive of great inconvenience, if they were obliged to remain in the hands of the first Obligee. This contract is, therefore, devised to operate upon subsequent assignments ; and amounts to a declaration that upon such assignment the money which I have so borrowed shall be no longer the money of A., but of B. his substitute. The Plaintiff is certainly, I think, entitled to the money in conscience, and, therefore, I think, entitled also in Law : for the Defendant has promised to pay **any** person that shall be entitled to the money"

Thus the Court unanimously held that the Obligor having granted a Bond transferable to **any** one else, by indorsement, **any** Indorsee might enforce it against him : in strict conformity with the invariable decisions of the Courts in all former similar cases

The Opinion of some Judges on the Transfer of Choses-in-action

53. Equity had from its earliest institution adopted the Law of the Pandects and the Basilica, that a Creditor had the absolute Right to transfer his Right or Debt without the consent of the Debtor : and some eminent judges, imbued with the spirit of Lord

Mansfield, held that the Courts of Common Law might, and ought to, adopt this principle of their own authority. Thus in *Winch* v. *Keely* (1 T. R., 619), in 1787, Ashhurst, J., said—"It is true that formerly the Courts of Law did not take notice of an Equity or a Trust : for Trusts are within the original jurisdiction of a Court of Equity : but of late years it has been found productive of great expense to send the parties to the other side of the Hall. Wherever this Court have seen the justice of the case has been clearly with the plaintiff, they have not turned him round upon this objection. Then if this Court will take notice of a Trust, why not of an Equity ?"

In another well known case, Buller, J., who may be considered as the *adlatus* of Lord Mansfield, said—"It is laid down in our old books that for avoiding maintenance, a *chose-in-action* cannot be assigned, or granted over to another (Co. Litt., 214 a, 266 a : 2 Roll. 45, 1. 40). The good sense of that rule seems to me to be very questionable : and in early as well as modern times it has been so explained away, that it remains at most only an objection to the form of action in any case. In 2 Roll., Abr. 45 and 46, it is admitted that an Obligation or other deed may be granted, so that the writing passes : but it is said that the grantee cannot sue for it in his own name. If a third person be permitted to acquire the interest in a thing, whether he is to bring the action in his own name, or in the name of the grantor, does not seem to me to affect the question of maintenance. . . . . Courts of Equity from the earliest times thought the doctrine too absurd for them to adopt, and therefore they always acted in contradiction to it : and we shall soon see that Courts of Law also altered their language on the subject very much. In 12 Mod., 554, the Court speaks of the assignment of an apprentice, or an assignment of a bond as things which are good between the parties, and to which they must give their sanction and act upon. So the assignment of a *chose-in-action* has always been held a good consideration for a promise. . . After these cases we may venture to say that the maxim was a bad one, and that it proceeded on a foundation which fails. But still it must be admitted that though the Courts of Law have gone the length of taking notice of assignments of *choses-in-action*, and of acting on them, yet in many cases they have adhered to the formal objection that the action shall be

brought in the name of the assignor, and not in the name of the assignee. I see no use or convenience in preserving the shadow when the substance is gone: and that it is merely a shadow, is apparent from the latter cases, in which the Court have taken care that it shall never work injustice. . . . . But admitting that on account of this quaint maxim an action cannot be maintained by an assignee of a *chose-in-action* in his own name, it remains to be considered whether that objection ever did hold, or ever can hold, in the case of a mercantile instrument or transaction. The Law merchant is a system of equity, founded on the rules of equity, and governed in all its parts by plain justice and good faith. . . . I can find no instance in which the objection has prevailed in a mercantile case: and in the two instances most universally in use, it undoubtedly does not hold: that is in the cases of Bills of Exchange and Policies of Insurance. The first is the present case: and bills are assignable by the custom of merchants: so in the case of Policies of Insurance, till the late Act was made requiring that the name of the person interested should be inserted in the Policy, the constant course was to make the policy in the name of the broker: and yet the owner of the goods maintained an action upon it. Circulation and the Transfer of Property are the life and soul of trade, and must not be checked in any instance:" and then he cited the case of *Fenner* v. *Meares*

In *Tooke* v. *Hollingworth* (5 T. R., 215), in 1793, the same Judge said—"During the fifteen years that I have sat on this bench, I have never known any case which established a distinction between Courts of Equity and Law on subjects of this kind. I have always thought it highly injurious to the public that different rules should prevail in the different courts on the same mercantile case. My opinion has been uniform on that subject. It sometimes, indeed, happens that in questions of real property, courts of law find themselves fettered with rules from which they cannot depart, because they are fixed and established rules: though equity may interpose, not to contradict but to correct, the strict and rigid rules of law. But in mercantile questions no distinction ought to prevail. The mercantile Law of this country is founded on principles of Equity: *and when once a rule is established in that Court as a rule of property, it ought to be adopted in a Court of Law*"

Although these eminent Judges clearly announced their opinion that it was perfectly within the competence of the Courts of Law to shake off the antiquated fiction that *Choses-in-action* are not assignable in Law, they never had the boldness to carry out this suggestion : and the doctrine continued to haunt the Courts of Law for nearly a century later with the most pernicious consequences : and the only sense in which the doctrine ever was true that the Transferee of a *Chose-in-action*, which is assigned without the consent of the Debtor, cannot sue the Debtor in his own name ; but must sue in the name of the Transferor : for which there is good reason in law : became magnified and exaggerated that it was contrary to the Common Law to create Obligations or *Choses-in-action* transferable even by the consent of the Obligor : for which there never was the shadow of a foundation

Of the **Property** *of the* **Transferee** *in* **Instruments Lost** *or* **Stolen**

54. We have now shown that it was perfectly well settled that all Obligations might be created and issued Assignable by the Obligor : that is, they were Transferable by sale, like any material Chattel. But that only went so far as to say that they might be transferred by a due and lawful sale. And so long as Indorsement was held to be necessary on each Transfer to transfer the Property in them, it was quite easy to ascertain the title of each Transferor

But when Obligations were created and issued by the Obligor payable to "bearer" only : and when it was held that the mere Indorsement of the first Payee rendered the Instrument payable to bearer without any further Indorsement : a new question arose

Small and portable Instruments like Bills of Exchange, Bank Notes and Cheques, which are used in the daily practice of commerce, are peculiarly liable to be lost or stolen. Now, suppose that one of these Instruments was lost or stolen : and the finder or thief passed it away in the usual course of business ; and the Purchaser, or Transferee, bought it honestly, and without knowing that the Transferor had no real Property in it ; and gave full value for it—What were his Rights in the Instrument ?

We have said in Chapter 1. that if the owner of any chattel

loses it, or has it stolen from him, he does not thereby lose his Property in it: and that he can reclaim, or vindicate, it from any person in whose possession he may find it; no matter how many hands it may have passed through: and even if he gave full value for it: and had no knowledge that it had been stolen. The maxim of law is that no one can convey a Right he does not possess: and, therefore, he cannot convey any better title to a chattel than he himself possesses. Consequently, no person who possesses any chattel can have any better title to it than any of the previous Transferors

But, from the very necessity of the case, Money was always an exception to this rule. It has always been law that if a person loses a sum of money, or has it stolen from him, he can reclaim, or vindicate, it if he finds it in the possession of the finder or thief. But if the finder or thief goes into a shop and buys goods with it: or passes it away in the usual course of business: and the seller of the goods takes it honestly in the usual way of business, and without knowing it has been stolen, he acquires an absolute Property in it, notwithstanding the defect of the title of his Transferor: and can retain it against the true owner. This is expressed by saying that in all honest transactions, *the Property in the Money passes by Delivery*. It is this peculiarity which in law is denoted by the term "**Currency**": and the legal term "**Current**" is applied to any Property to which the Transferee acquires an absolute title by delivery, notwithstanding the infirmity of the Title of the Transferor

Now the question arose very early in the case of Securities for Money, lost or stolen, and passed away in commerce and honestly purchased for full value—What is the Title of the Transferee in an instrument acquired in such a way? Does it follow the law of ordinary chattels? or does it follow the law of Money? and, do such securities possess the attribute of "**Currency**"?

It has been decided in a long series of cases, that all Securities for Money created and issued by the Obligor, transferable, and therefore intended by him to circulate like Money, follow the law of Money: and, therefore, they possess the attribute of "**Currency**"

But Obligations which are created and issued by the Obligor payable only to a definite person, and therefore not intended by

him to circulate like Money, follow the Law of Goods: and, therefore, do not possess the attribute of "**Currency.**" Every person, therefore, who purchases such an Instrument has full warning that he takes it subject to the title of all preceding Transferors

Instruments which possess the attribute of "**Currency**" are also termed **Negotiable**

The student must carefully observe the distinction between **Assignable** Instruments and **Negotiable** Instruments

Assignable Instruments are those which may be freely sold: but whose Transfer follows the Law of **Goods:** and the Title of the last Transferee depends on the title of *all* the preceeding Transferors

Negotiable Instruments are those which may also be freely sold: but whose Transfer follows the Law of **Money:** the last Transferee, if he acquires them honestly and for full value, acquires complete Property in them: may retain them against the true owner, if they are lost or stolen: and may sue all the parties to them

Thus every Negotiable Instrument is *ipso facto* Assignable: but every Assignable Instrument is not Negotiable

And a Negotiable Instrument may be deprived of its attribute of Negotiability, or Currency, and reduced to an Assignable Instrument

Thus, if the holder of a Bill of Exchange made payable to "bearer," or indorsed in blank, and, therefore, become payable to bearer, indorses it specially to another person *only*, the Instrument has ceased to be *Negotiable*, and become only **Assignable** against the person who has *specially* indorsed it; though it remains *Negotiable* against the Drawer, Acceptor, and all Indorsers who indorsed it generally

So an ordinary Cheque payable to "bearer" or to order is a **Negotiable** Instrument: but by a recent Act the holder may write the words "Non-Negotiable" across it: and then it is reduced to an **Assignable** Instrument: and all Transferees take it subject to the title of all the preceeding transferors

So an overdue Bill or Note loses its attribute of Negotiability or Currency, and is reduced to an Assignable Instrument: and all Transferees take it subject to the title of the Transferors after it became overdue

We shall not give any account here of the series of decisions which have established that all securities for Money, created and issued by the Obligor himself, payable to "bearer" or indorsed in blank, are Negotiable Instruments: and, therefore, possess the attribute of Currency. The Bank Charter Act of 1844, and the monetary legislation of the country is founded entirely on a particular definition of the word "**Currency**": and its exposition is so important that it will require a chapter to itself

On the **Origin** *of the* **Dogma** *that* "**Choses-in-action** *are not* **Assignable** *at* **Common Law**"

55. Bracton, the Prince of English Juridical writers—whose long-neglected work has now, we are happy to say, been republished under the direction of the Master of the Rolls, in a magnificent edition which leaves nothing to be desired—states, as we have seen, in the most general words possible, that **Any** Obligation may be **Transferred** or **Assigned** by the consent of the parties to it

Now, as we have already explained, an Obligation is the Bond of Law between two persons, by which one Person, the Creditor, has the Right to compel another Person, the Debtor, to render him **Any** material chattel, such as money, iron, corn, timber, or any other: or to render him a service of **Any** description whatever (ad **Aliquid dandum aut faciendum**)

We have shown in Chapter I. that in Roman Law the word **Res** includes **everything** which can be the subject of a Right. Consequently, Jurists have shown that as one person may have the Right to demand some service from another, the word **Res** includes human actions, services, or labour of any sort

Consequently, the term *Chose-in-action* must include the Right to demand any Service or Labour: as well as the Right to demand a material chattel

Moreover, an Obligation may be contracted in four forms: either by the delivery of the thing: in writing: by words: or by mutual consent

It may be as well to explain for the benefit of lay readers, that in English Law "**writing**" always used to mean a *writing under* **Seal.** Very few persons in those days were able to write:

consequently, when it was necessary to enter into a written Contract, the Contract had to be written by a Clericus, or Clerk, and the parties signified their assent to it by appending their Seal. So a writing with the Seals of the parties to it was termed a **Bond, Deed,** or **Specialty**

All contracts in writing without the formality of the seal appended, are treated as mere Oral, or Parol Contracts

Hence, as Bracton states, Obligations relating to any matter, either a material chattel, or a service: and contracted in any form, either in writing or by words, might be Assigned and Transferred by the consent of the parties to them

56. In the time of Bracton, when the Feudal system was at its height, and every person connected with land lived in a state of Contract, or Obligation, the chief portion of Obligations probably consisted in the Obligation to render services. Rents were created payable in money: in kind: that is, natural products, such as corn or cattle or poultry: or in services

And we have seen that the principles relating to the Transfer or Assignment of Obligations to render services were identically the same as those relating to the Transfer of Obligations to render material chattels. Consequently, we can always argue from Obligations of one sort to those of the other

57. Not only does Bracton lay down in the most general terms possible, without any qualification or exception, that **any** Obligation may be assigned or transferred with the consent of the parties, but by a uniform series of decisions extending through **550** years every new species of Obligation, as it came into existence according to the increasing wants and necessities of society, was declared by the Courts of Law to be Transferable and Assignable—with one unfortunate exception

Thus Feuds, Charters, and Leases were first granted to the Grantee alone: but in process of time they were granted to Grantee and his Assigns. We find in Bracton that it was already usual to grant feoffments to the Donee, his heirs, and his **Assigns** (Libr. ii., c. 6, 16). And the Courts of Law held that the Assignee might sue the Grantee in his own name

Then Personal Annuities were created Assignable; and by a

decision as early at least as 1368, it was held that the Assignee might sue the Grantor in his own name. This decision was affirmed in cases which were expressly approved of by Lord Coke : and the doctrine at last ceased to be questioned

All these different Obligations were **Deeds** or **Specialties ;** and though they were intended to be freely Sold and Assigned at the will of the Grantee : they were never intended or expected to circulate in commerce like Money

58. We have now to consider a different kind of **Deed** or **Specialty,** of mercantile origin, which was expressly intended to record and transfer mercantile Debts, and to pass from hand to hand like Money

It has been shown that written documents of Debt were in common use at Rome in the time of Cicero : and allowed to be used as evidence of Debt between foreigners : though not between Roman citizens. In process of time these came to be acknowledged as evidences of Debt among Roman citizens, when the Family Ledgers had fallen into desuetude

These *Cheirographa*, Gaius tells us (iii., 134), were in the form of acknowledgments and **Promises** to pay : and by the time of Justinian had acquired all the validity of a modern Promissory Note. They formed a valid contract in themselves, just like the Stipulatio and the Expensilatio : and, consequently, they required no consideration to support their validity. Moreover, they were transferable by the general Law of the Empire, that all Actions of every sort might be sold at the will of the Creditor

Hence we see that Obligations in both forms—of **Orders** to pay and **Promises** to pay—have come down to us from the Romans. No doubt their use was greatly diminished during the commotion caused by the fall of the Roman Empire : but their use revived when Europe became more settled. Their use of course extended to England : but the first notice of them, that we are aware of, is in the Statute of Merchants, 11 Edw. I., in 1283. It is there enacted that because there was no speedy recovery at Law for mercantile Debts, any merchant which would be sure of his Debt might cause his Debtor to come before the Mayor of London, York, or Bristol, and the Clerk should write an "**Escrit de Obligacion**" or Bill Obligatory, as it is termed in the

official translation of the Statutes, binding the Debtor to pay his Debt on a given fixed day : to which he was to affix his seal

Written Obligations are also described by Britton

Now it must be observed that these written Obligations were necessarily **Sealed**—that is, they were **Deeds** or **Specialties**

No doubt Obligations of Debt were at first created payable to the Creditor only. But it is natural to suppose that merchants soon perceived the advantage of making them Transferable. Moreover, foreign bills were transferable in their very nature by the general mercantile law of Europe. It is therefore natural to suppose that at a very early period, though we cannot tell when, merchants adopted the form of creating their Obligations payable to Assigns, or Bearer. Accordingly we find that Bills of Exchange and Promissory Notes, sealed as **Deeds** payable to **Assigns** and to **Bearer**, were in common use in 1482. And, of course, if common forms of these documents are given in 1482, they must have been in common use for a long time previously

It is also seen that in 1587 Bills of Exchange were drawn in the form of Promises to pay ; were sealed : *and delivered as* **Deeds** *or* **Specialties** : and, by the case of *Shelden* v. *Hentley*, that the practice of sealing Bills or Notes was still in use in 1680

Moreover, both in Law and common usage the word "**Bill**" meant any writing whether sealed as a Specialty or not. As is seen in the next section, these sealed Instruments were termed "**Bylls**" : and Ben Johnson uses the word **Bill** as synonymous with **Deed**

59. With these unquestionable facts before us it is easy to perceive the true course of events

For many centuries **Bills** and **Notes** were exclusively **sealed** Instruments, **Deeds** or **Specialties**. In process of time, as writing became common, merchants began gradually to discontinue the formality of sealing, and used their simple signature. For a considerable time bills sealed and unsealed circulated together, and were considered equally valid

This was exactly the case with Cheques, which originated with Banking. It is seen by a number of Cheques which have recently been brought to light, that they were sealed or not sealed at the

pleasure of the drawer : the last instance of a sealed Cheque that we have seen is dated in 1707

So in the edition of *les Termes de la Ley*, published in 1708, it is said—" But of late times it is used in London that merchants and others there who have **Bills** *without* **Seals** for payment of money, assign them to others, who bring actions in their own names." Which proves, as we have shown, that the ancient and usual custom was to seal Bills : but that the custom of merchants had made signed Bills of the same validity

60. Accordingly, we have seen that when these unsealed Bills and Notes came before the Courts, they at first did not hesitate to recognise the new form of Obligation as perfectly valid : until at last in a most unfortunate moment Lord Holt determined to set his face against them ; and at last brought the whole of the Judges round to his opinion

But the student must carefully observe the ground upon which his decision was based : it was that by recognising their validity it would be *putting a* **parol Contract** *or a* **mere piece** *of* **paper** *on the same level as a* **Specialty**

Hence, in the very terms in which the judgments were given, it was expressly acknowledged and admitted that **Any** Specialty was assignable and transferable

So, also, after this judgment, new Specialties were recognised and admitted by the Courts of Law as assignable and transferable, namely, Respondentia Bonds and Policies of Insurance

From about the year 1250, then, the period when we may suppose that Bracton wrote his work, to the year 1800—a period of **650** years—it was allowed by text writers of the highest authority, and by a regular series of decisions of the Courts, that Obligations of all sorts were transferable and assignable. Thus the Courts of Law had uniformly adapted themselves to the progress of the times ; and—with one unfortunate exception—recognised the assignability of every new species of Obligation as it came into existence. It is true that in early times it had been the babble of the Bar that *Choses-in-action* were not assignable : but on every occasion on which it was brought forward, it was unanimously rejected by the Court : till at last it ceased to be brought forward at all. It would be impossible to conceive any

doctrine to be more thoroughly discredited and exploded than that "*Choses-in-action are not Assignable at Common Law.*" How then did this doctrine, scouted and rejected by the Courts for centuries, at length rise, with twenty mortal murders on its head, gain possession of our Courts of Law, be found at every turn in our standard text-books of Mercantile Law, and became, as it were, ingrained in the minds of Modern Lawyers as a cardinal maxim of the Common Law ?

We believe it is entirely due to Lord Kenyon

61. In the case of *Johnson* v. *Collings* (1 East, 98), in 1800, Lord Kenyon held that a promise given by a merchant to accept a bill before it was drawn, was not a valid acceptance of the Bill, contrary to the doctrine of Lord Mansfield in *Pillans* v. *Van Mierop*. In his judgment, he said "that to allow this would be to say that a *Chose-in-action* is assignable : a doctrine to which I will never subscribe. I cannot, as at present advised, and upon a general view of it, agree with the case of *Fenner* v. *Meares*"

So Grose, J., said—" By the general rule a *Chose-in-action* is not assignable, except by the custom of merchants. The assignment of a *Chose-in-action* by a Bill of Exchange is founded on that law : and cannot be carried further than that law will warrant it"

Now, with respect to the case of *Fenner* v. *Meares*, we may observe that it was the unanimous judgment of the Common Pleas of which Blackstone was a member : and that it was strictly in accordance with the judgments of all the Courts for upwards of 500 years. Therefore, at this time the King's Bench and Common Pleas were unanimous that a Bond made assignable to any holder might be transferred : and that the holder might sue the Debtor

62. Next, with respect to the broad and sweeping dogma that "*Choses-in-action* are not assignable at Common Law," it is evident that in its brute generality it comprehends the four following propositions—

1. That Obligations or *Choses-in-action* cannot at Common Law be made Assignable or Transferable, even with the consent of the parties to them

2. That it is illegal at Common Law for an Obligor to create

an Obligation Assignable or Transferable to assignees, or the bearer

3. That the Creditor in an Obligation cannot Transfer his Right of action even with the consent of the Debtor

4. And lastly, *a fortiori*, a Creditor cannot transfer his Right without the consent of the Debtor, so as so enable the Transferee to sue the Debtor in his own name

Of these four propositions the first three are absolutely destitute of any foundation in truth : the last only was technically true : and already in the time of Henry VI. it was perfectly well established that the Debt might be assigned : but that the Transferee must sue in the name of the original Creditor : so that for more than four centuries it had been reduced to a mere legal fiction : or as Buller said, a mere objection to the form of action, which he and other enlightened Judges wished to see discontinued by the Courts of Law

63. For thirty years, from 1756 to 1786, the Court of King's Bench had been presided over by a chief who, take him all in all, may probably be said with truth to have been the most accomplished person who ever adorned the Judicial Bench of England, or of any country : and who was exactly fitted for the times in which he appeared. William Murray, the eleventh child of a poor Scotch peer, had been till past thirteen at the grammar school at Perth, where he distinguished himself for his progress in the humanities. In 1718, by the advice of Atterbury, Dean of Westminster, he was transferred to Westminster School, then in the height of its reputation. Always *dux* of his class at Perth, he gained a King's Scholarship at Westminster in 1719, and distinguished himself above all his competitors. In 1723, after an examination conducted by Atterbury, Bentley, and the Dean of Christ Church, he was placed first in the list of scholars sent to Christ Church. Being miserably poor, and unable to afford the education necessary for the English Bar, he had intended to take orders in the English Church : but a wealthy nobleman, the father of one of his schoolfriends, at whose house he visited, was so struck by his abilities that he took upon himself the cost of his education for the bar. Stimulated partly by his own innate ambition to distinguish himself in the profession to which his own genius led

him, and partly, no doubt, by his sense of the obligation which he had incurred to his generous patron, he continued his studies with unflagging industry at Oxford : and attended lectures there on the Pandects of Justinian, which laid the foundation of his future fame as a Commercial Lawyer

While studying for the bar, Murray continued his course of almost unparalleled industry. He first mastered Roman Law, which he justly considered as the foundation of all scientific jurisprudence ; then international law ; then the feudal law and the Common Law of England ; then the great jurists of France, and especially the *Ordinance de la Marine*, the great Code of Mercantile Law, then recently published. He also studied ancient and modern history : and, notwithstanding all this course of severe labour, he mingled in the gayest society, and was the intimate friend of Pope. He was certainly the most extraordinary combination of forensic, political, literary, and social qualities, that ever was seen. Having long been at the head of the bar, he became Solicitor General in 1742 : Attorney General in 1754 : and Chief Justice of the King's Bench in 1756

Towards the end of the reign of Charles II., the commerce of the country began to expand, and more attention was paid to industrial and economical questions than had ever been done before. Although Bills of Exchange and Promissory Notes under the name of Bills of Debt had been in common use for centuries, it is very remarkable that no case on a Bill of Exchange occurs in the Law Reports till 1602. But banking originated during the Commonwealth, and bankers introduced Promissory Notes payable to bearer on demand. From this time cases on Bills and Notes began to multiply

The extension of our commerce and colonies gave rise to an immense mass of new mercantile cases. And, fortunately, just at this period there was a chief justice who was pre-eminently fitted to deal with them. All the fundamental principles of the Law of Creditor and Debtor, Principal and Surety, and Principal and Agent, are clearly worked out in Roman Law ; and Lord Mansfield had simply to apply these well-settled principles to the vast mass of mercantile cases which were brought for the first time into a Court of Law. For these reasons Lord Mansfield has been called the founder of our Mercantile Jurisprudence. In *Lickbarrow* v.

Mason, Buller, J., said—"Within these thirty years the Commercial Law of this country has taken a very different turn from what it had before. Lord Hardwicke himself was proceeding with great caution, not establishing any general principle, but decreeing on all the circumstances put together. Before that period we find that in Courts of Law all the evidence in mercantile cases was thrown together : they were left generally to a jury : and they produced no established principle. From that time we all know, the great study has been to find some certain general principles, which shall be known to all mankind, not only to rule the particular case then under consideration, but to serve as a guide for the future. Most of us have heard these principles stated, reasoned upon, enlarged and explained, till we have been lost in admiration at the strength and stretch of the understanding. And I should be very sorry to find myself under a necessity of differing from any case upon this subject which has been decided by Lord Mansfield, who may be truly said to be the founder of the commercial law of this country"

The frequent references Lord Mansfield made to the Roman and other foreign Law gave his enemies a handle to assert that he was overthrowing the old Common Law of England, and confounding the distinction between Law and Equity : and he was succeeded by a chief who was in every respect a contrast to himself. With a very imperfect education, Lord Kenyon knew no other jurisprudence but that of England. Articled to an attorney at 14, he was intended for that branch of the profession, when the death of an elder brother made him heir to a small estate in Wales. He then determined to go to the bar. During the five years he was obliged to spend before he could be called, it is said that he pored over his law books day and night, and made himself a consummate lawyer. He acquired a great reputation as an answerer of cases : but while these were clear, practical, and sound, he was singularly deficient in the power of explaining the reasons upon which they were founded, and he cited no authorities. And he was always more attached to dogma and precedent than to scientific reasoning

It was supposed that Lord Kenyon was the restorer of the true principles of the Common Law, in opposition to the Equitable principles which had been introduced into it by his predecessor.

But the present was a most unfortunate example of it. When he revived the dogma that "*Choses-in-action* are not assignable," he for the first time asserted a dogma from the Bench that had been expressly rejected in a series of decisions extending from 1368 to 1628. In fact it had ceased to be urged in argument since that date. Lord Kenyon might have read in Noy, p. 72—"A **thing-in-action** may be **assigned** over for a good cause, as just debt: as where a man is indebted to me twenty pounds; and another owes him twenty pounds, he may **Assign** over his Obligation to me in satisfaction of my debt: and I may justify the suing for the same in the name of my debtor at my own proper costs and charges"

He might also have read in Jenkins's Centuries, III., c. 9—"A. is indebted to B., and C. to A.: A. *assigns* the debt due to him by C. to B. in satisfaction for the debt due by A. to B. This is not maintenance." And he might also have seen that so long ago as 37 Hen. VI. it was established that the Assignee of the debt might sue in the name of the Assignor

He might also have seen by the judgments in Lord Holt's cases that the judges unanimously allowed that Specialties were assignable: but they would not allow parol contracts to be so: and that the ground of their holding Promissory Notes to be illegal at Common Law was that it was putting a piece of paper on the same level as a Specialty

He might also have read in Blackstone, II., c. 30, Edit. 1770—"No *chose-in-action* could be assigned or granted over (at Common Law) because it was thought to be a great encouragement to litigiousness, if a man were to make over to a stranger his right of going to law. *But this nicety is now disregarded:* though in compliance with the ancient principle, the form of assigning a chose-in-action is in the nature of a declaration of trust, and an agreement to permit the assignee to make use of the name of the assignor, in order to recover the possession." And also IV., c. 33—"The introduction and establishment of paper credit, by indorsements on bills and notes, which have shown the possibility (so long doubted) of assigning a *chose-in-action*"

When, therefore, Lord Kenyon uttered the dogma that "Choses-in-action are not assignable," and Grose said—"Choses-in-action were not assignable except by the custom of merchants, and only

extended to Bills of Exchange," they were uttering *dicta* which were in direct contradiction of all authorities on the Common Law and the decisions of the Courts of Law for 650 years

It is only from this case in 1800 that this dogma has prevailed in our text books. The ascendency which Lord Kenyon had acquired over his colleagues on the Bench, something similar to that of Lord Holt, caused his dogma to be accepted as a cardinal maxim of Common Law. And from that time it has been held that *Choses-in-action* are incapable of being assigned at Common Law : that the sole exception of this rule was Bills of Exchange by the Law Merchant : and Promissory Notes by the Statute of Anne. And that Deeds, Bonds, or Specialties were not assignable, even if made so by the Obligor

This erroneous *dictum* was not long in bearing fruit. In *Glyn* v. *Baker* (13 East, 509), the East India Company had issued Bonds payable to the payee, and his assigns. The Court held them not negotiable. This, as Lord Blackburn said in a subsequent case, raised such a commotion that an Act was immediately passed to render East India Bonds negotiable like Promissory Notes

On the Case of **Bovill** *v.* **Dixon**

64. The Obligations we have hitherto considered were all contracts to pay Money : we have now to discuss a case which enlarged the discussion on the nature of Obligations : or the Transfer of *Choses-in-action*

Credits in this country have been usually Rights to demand Money : and it is often supposed that a Creditor has merely the Right to demand Money : but we have shown that a Credit in general is the Right to demand **any** chattel or product from a person ; money being only one particular chattel : or the Right to compel him to perform some service or to **Do** something

In the south of Europe it is quite usual to grant Bills payable in produce. In the Ionian Islands, mercantile Bills are usually made payable in oil : and in other parts Bills are drawn payable in other products

In 1849, Dixon, an iron merchant in Glasgow, contracted in London to deliver Iron at any time after a certain date : and in exchange for Bills he gave documents in the following form—

"Glasgow, 10th July, 1849

"I will deliver 1,000 tons No. 1 pig iron free on board here when required after the 10th day of September next to the party lodging this document with me

"For William Dixon,
"JOHN CAMPBELL"

This document having passed into the hands of a third party for value, who became bankrupt, his assignees sued Dixon for the delivery of the iron in terms of his undertaking

The question arose whether the above was a valid and legal document by the Common Law of Scotland, and enforceable by a *bonâ fide* Transferee for Value. In fact it was nothing but a Promise to pay in Iron instead of Money. It was known in the trade by the name of Iron Scrip

The Lord Ordinary, Rutherfurd, said—"It seems impossible to doubt that a party may undertake such an Obligation. . . He sees no objection in point of law to such a document"

The Lord Justice Clerk said it was the first time that such a document had been considered by a Court of Law: but held it to be perfectly legal and to give the holder a right of action against the maker

Lord Cockburn held that the writing bound the seller to give the iron "to the party lodging this document with me." . . . "That it is competent to a party to issue such an Obligation, I cannot doubt. Whether for a price or no price, or for any or for no consideration, if a party chooses to bind himself in favour of the mere holder of such a document, I am not aware of there being anything in law to prevent him." The other two judges were equally decided in their opinion that it was a perfectly legal and negotiable document

The case was taken by appeal to the House of Lords: but in the meantime a similar document granted by the same person to another merchant came before the first division of the Court, and it is as well to consider their opinion as to the legality of the document

In the case, *Dimmack* v. *Dixon* (cases in the Court of Session, 4th Series, vol. 18, p. 128), the Court considered that it was of

such great importance as a point of mercantile law to determine the validity of such documents, that, as is usual in points of great importance in Scotland, they took the opinion of all the other Judges. The result was that the Judges of the Second Division unanimously adhered to their former opinion that the document was perfectly legal and valid : and of the remaining Judges, six were of opinion that it was legal : and three were of opinion that it was not. Thus, upon the whole, ten Judges were of opinion that the document was legal : and three were of opinion that it was not

The judgment in the case of *Bovill* v. *Dixon* was given in the House of Lords, July 29, 1856. The only Law Lord who gave an opinion was Lord Chancellor Cranworth ; and his observations are so important, as giving a statement of what was then considered to be Law, that we must give them at some length. He said—

"If the question had turned exclusively upon the validity or invalidity of this document, I am bound to say that I should not have concurred with the Court of Session. I think that the document is invalid. *The effect of such a document, if valid, is to give a floating right of action to any person who may become possessed of it. Now, I am prepared to say that this cannot be tolerated either by the Law of Scotland or of England.* The only cases in which such an action can be sustained are those of Bills of Exchange and Promissory Notes, depending on the Law Merchant in the case of Bills of Exchange : and on the Statute of 12 George III., c. 72, s. 36, in the case of Promissory Notes. No evidence was given to show any general mercantile usage affecting such instrument as that now in question : indeed, it was impliedly admitted at the trial that no such usage could be established by evidence : and I must, therefore, assume that no such usage exists : that is, there is nothing in the Law Merchant to warrant what is now contended for

"Bills of Lading, I may observe, afford no analogy whatever. A Bill of Lading is a mere symbol of property : no right of action passed by indorsement previously to the Act of last session, which caused a Right of action to pass as well as a right of property. No authority for such transferable right of action has been adduced in argument before your Lordships, and all *principle is against its validity*

"The rule preventing such actions is by no means one of a technical nature. It is a rule founded in extremely good sense. In England, a plaintiff suing on a contract, unless it be a contract under seal, must prove a consideration. That indeed is not the case in Scotland. But in Scotland as well as in England, it is a perfectly good defence to show illegality of consideration : *turpis causa* for instance ; or that the instrument in question was given to induce a violation of the law : or that it was an instrument tending to restrain freedom of action in cases where, on grounds of public policy, every one ought to be free and the like. I give these instances merely as illustrations. Where an action is brought by one of the contracting parties, illegality of consideration, can always be pleaded as a defence. So also where an action is brought by the assignee of the original contract, which may be done directly in Scotland, and indirectly by means of a Court of Equity in England, the illegality of the original contract affords a good defence. It is the policy of the law to preserve this principle intact, in order to prevent Courts being made ancillary to violation of the law. Now this principle is entirely defeated if a contracting party can make a floating contract enforceable by bearer : for the bearer does not sue as the assignee of the original contracting party. He may be, and probably is, a stranger to the original contract. His right, if any, is under an independent contract with himself, against which no illegality as between original parties can be set up. Bills of Exchange have been made an exception for the convenience of trade, but it is an exception not to be extended. The drawer of the bill gives to the indorsee a better title than his own : and this leads, or may lead to, many ill consequences : but mercantile convenience has sanctioned it. No such necessity exists in the case of other contracts, and there is no authority to warrant it. Indeed, I may observe that the Statute of the 12th George III., c. 72, s. 36, affords statutable authority by analogy against the present claim : *for if a Promissory Note could have been made transferable by indorsement at Common Law, there would have been no necessity for that Statute.* . . .

"If the convenience of those engaged in trade and commerce requires that scrip notes of this description should be made legal and valid, that must be effected, if at all, by the legislature : and in any measure being introduced for such an object, it will be for

your Lordships and the other House of Parliament to consider and weigh well the social benefits and evils likely to result from the sanctioning of the proposed change. It may be that the general adoption and use of these scrip notes would afford safe facilities to commercial enterprise. It may be, on the other hand, that such a practice would tend to produce and keep alive a restless spirit of inordinate speculation, and so be injurious to those engaged in wholesome commerce. But these are all questions for your Lordships in your legislative, not in your judicial capacity. Looking at the matter merely as advising your Lordships as a Court of Appeal, I have no hesitation in saying that, independently of the Law Merchant and of positive Statute, within neither of which classes do these scrip notes range themselves, the *Law does not either in Scotland or in England, enable any man by a written engagement to give a floating Right of action at the suit of any one into whose hands the writing may come*, and who may thus acquire a Right of action better than the right of him under whom he derives title"

The Author selected by the Law Digest Commissioners to prepare the Digest of the Law of Bills of Exchange

65. The doctrines laid down by Lord Cranworth in *Bovill* v. *Dixon* were undoubtedly supposed to be Law at the time. They were to be found in all the usual text books of Mercantile Law, were taught in every special pleader's chambers, and they were set forth in the earlier editions of this work. But when the competition for the Digest of the Law was invited, it occurred to the author that the doctrines then current as to the transfer of *Choses-in-action* at law were contradictory: because it was perfectly admitted that it was legal to transfer a *Chose-in-action*. It became necessary, therefore, to investigate what was the true doctrine of the Common Law on the subject. The result of that investigation has been given in the preceding paragraphs: and an important part of the author's paper was an argument founded on a series of cases, extending through several centuries, that it was an error to suppose that the Common Law absolutely prohibited the Transfer of *Choses-in-action*. That the Courts had in fact uniformly held that when an Obligation had been created by the

Obligor himself assignable, it might be assigned : and that the assignee might sue the Obligor in his own name

After reciting the cases quoted above, he said—

"The preceding cases seem to establish incontestably the following as the true Common Law doctrine as to the Transferability of Debts or *Choses-in-action*

"I. Where the Obligor granted the Obligation to the Obligee alone, an assignee of the Obligation could not sue the Obligor in his own name

"II. But wherever the Obligor granted the Obligation to the Obligee and his Assigns, or to 'bearer,' thereby giving his express consent to its alienation, the Obligee might freely assign it, and the holder of it had a Right of action against the Obligor : for he was bound by his contract : and *modus et conventio vincunt legem*"

He then showed that the Common Law having perfectly allowed Obligations to be created Transferable, the *form* of the Obligation was a matter of indifference. That Obligations in both forms of orders to pay money and of promises to pay money had been in common use for centuries longer than had been usually supposed : and they were made payable to assigns or to bearer : and furthermore that they were sealed as Deeds

Upon the examination of this paper the Commissioners unanimously selected the author to prepare the Digest of the Law of Bills of Exchange ; and he was invested with the duty of reducing into systematic and scientific order the whole mass of cases on the subject both at Law and in Equity. He was instructed that he was not to pay any regard to any text book, or to what any Judge or Court of Law said : but that it was his duty to declare "**the Law**" on every point in the subject. This, therefore, involved the duty of examining and approving, confirming, modifying, or reversing the decisions of all the Courts of Law and Equity in England, on this subject

Accordingly he began the Digest by setting aside as erroneous the whole of Lord Holt's cases, upon which the modern doctrine had been founded ; and stated the true Common Law doctrine thus—

"2. At Common Law a Creditor cannot transfer his Debt or Right of action to a third person without the consent of the

Debtor, so as to enable the Transferee to sue the Debtor in his own name

"3. But wherever the Debtor assents to the transfer of the Debt, either **Orally** or in **Writing**: the assignment of it by the Creditor is irrevocable; a trust is created; and the assignee may sue the Debtor in his own name"

Moreover he said in a note—"The legality of Promissory Notes is sometimes supposed to rest solely upon this Act (*i.e.*, of Anne): but there can be no doubt whatever that the series of decisions which were the cause of the Act being passed were erroneous: and that the Act was superfluous"

In 1870, the Commissioners discontinued the work of the Digest: so that the author's digest was never published. But his selection by the Commissioners was in effect equivalent to the judgment of the House of Lords in his favour: because the Commissioners comprised all the Law Lords except one: and if upon examining the author's written argument in their character of Commissioners, they approved of his doctrines in preference to those generally current in the profession, they must equally have done the same if he had had the opportunity of arguing the question before them in their character of Law Lords. Moreover Lord Cranworth, whose doctrine the author impugned, was chairman of the Commissioners

Accordingly, the author introduced the new doctrines into his *Principles of Economical Philosophy*, published in 1872. In vol. I., p. 510, of that work, he said—

"If any readers of this work should happen to be acquainted with our *Theory and Practice of Banking*, second Edition, 1866, they may, perhaps, be greatly surprised to see that, though the facts and the system of credit given here are the same as those set forth in that work, yet our statement of the Law of the subject is perfectly different now to what it was then. The explanation of this extraordinary difference is this: that in the former work we stated the Law according to the current doctrine which may be heard in Westminster Hall, in a special pleader's chambers, or in the text books. But since that work was published we were selected by the Royal Commissioners for the Digest of the Law to prepare the National Digest of the Law of Credit. In the preparation of this great national work, we could not rest satisfied

with the loose, vague, ill-defined notions floating about Westminster Hall. It became necessary to trace every principle through the whole course of English Law to its very sources : and to reduce to absolute precision the shifting and conflicting doctrines in the various cases. It was also necessary to investigate thoroughly the Theory of Credit as developed in Roman Law. The result of this investigation was to show that the common notions on the subject prevalent among English lawyers are completely erroneous both in Fact and Law. Pages of our common text books must be scored out. All that we find in them stated about the transfer of *Choses-in-action* being contrary to the Common Law, and only adopted from the Law Merchant, is pure rubbish, and must be consigned in future to the limbo of myths. We proved by a series of cases traced through 500 years that in every case where a *Chose-in-action* was originally created transferable by the consent of the Obligor, the Courts of Law have invariably held that the Transferee might sue the Obligor in his own name. Yet such is the vitality of error, that it is one of the stock *dicta* of Westminster Hall, that *Choses-in-action* are not assignable at Common Law. Not only was the series of cases in which Lord Holt refused to recognise Promissory Notes as legal documents quite contrary to the principles which had been invariably followed for three centuries : but Lord Mansfield expressly declared them to be founded on erroneous principles : and Lord Kenyon, well known as a stickler for the strictest rigour of the Common Law, concurred in this opinion. The whole system of Bills and Notes is strictly legal at Common Law. Moreover, it is quite evident that the flimsy reason given by Lord Coke was quite inadequate to explain the case. The law affecting the transfer of Credit is only an example of a very wide principle of Jurisprudence, founded on the very nature of things. Roman Law went through exactly the same phases as English Law is doing : and it seems somewhat strange that the Law of the Romans, who were not a commercial people, reached a much greater state of perfection than the Law of a great commercial people like the English. And the reason is, that the Roman Law was worked out by a series of illustrious Jurists, with whom we have none to compare. Where is our Gaius, or our Modestinus, our Javolenus, our Ulpian, or our Papinian ? Alas ! we have

none such. We have no philosophic Jurists, only matchless legal practitioners"

On the Case of Crouch *v.* The Credit Foncier of England

66. We now come to the last case in which, we hope, the dogmas we have been discussing at so great length will make their appearance

The *Credit Foncier of England* issued an Obligation, which they termed a Debenture, by which they promised to pay the **Bearer** the sum of £100 on the 1st day of May, 1872, or upon any earlier day upon which the Bond should be entitled to be paid off, or redeemed, according to certain conditions printed on it

The Bond further promised to bear interest at 8 per cent., payable half-yearly on the 1st November and 1st day of May in each year, from the 1st November, 1869 to the 1st May, 1872: unless it should be drawn for payment before the 1st May, 1872: in which case, interest was to cease from the day it was drawn

One Macken bought ten of these debentures. In July, 1869, his house was broken into and they were stolen. The Bond in question was drawn for payment on the 1st November, 1870. Macken having received substituted Bonds, on giving notice of his loss to the Company, and an indemnity, received payment of the Debenture

At the end of 1871 the Plaintiff bought the Debenture from a person who afterwards disappeared: and sued the Company for payment of it

It was not disputed that he gave value for the Bond without notice, and at the trial before Bramwell, B., he gained the verdict

The questions before the Court in Banc were—

1. Whether the Debenture was a Negotiable Instrument

2. Whether if it were so, it was not overdue and so had lost its attribute of "Currency" or Negotiability

The Judgment of the Court of Queen's Bench was delivered by Blackburn, J., in the absence of the Chief Justice

He began by allowing that such Instruments had been for some time treated as Negotiable

He then said (L. R., 8 Q. B., 374)—"The general rule is not

disputed that **a Chose-in-action cannot be transferred at law at all** : but that in Equity it may be assigned, though the action at law must be brought by the Assignee in the name of the original contractee : in this case, Macken. Equity will compel the contractee, if he has assigned the contract, to allow his name to be used for this purpose on an indemnity against costs. Had Macken assigned this contract to the plaintiff, either directly or through the medium of intervening assignees, the question whether the plaintiff was able to sue in his own name, or was obliged to sue in the name of Macken, would have been purely technical. But the general rule, both at law and in equity, is that no person can acquire title either to a *Chose-in action*, or to any other property, from one who has himself no title to it : and, therefore, the plaintiff could not in equity have compelled Macken to permit his name to be used, unless to borrow the language of Tindal, C. J., in *Brandao* v. *Barnett*, such an instrument as this 'falls within that description of property to which a good title may be acquired by a party who takes it *bonâ fide* for value, notwithstanding any defect of title in the party from whom it is taken'

"In the present case, the plaintiff has taken upon himself the burden of establishing both that the Property in the debenture passed to him by delivery ; and that the right to sue in his own name was transferred to him

"The two propositions are very much connected, but not identical. The holder of an overdue bill or note may confer the right on the Transferee to sue in his own name, but he conveys no better title than he had himself. So the assignee of a Scotch Bond, which is assignable by the law of Scotland, may sue in his own name in the Courts of this country : but he has not a better title than those from whom he took the Bond, unless, perhaps, if the contract is by the law of Scotland not merely assignable but negotiable. As to this in *Dixon* v. *Bovill*, Lord Cranworth, then Lord Chancellor, in delivering the judgment of the House of Lords, in a Scotch case, as to iron scrip notes says—'I have no hesitation,' &c. (as alluded above)

"But the two questions go very much together': and indeed in the notes to *Miller* v. *Race*, where all the authorities are collected, the very learned author says : 'It may, therefore, be laid down

as a safe rule that where an instrument is by the custom of trade transferable, like cash, by delivery, and is also capable of being sued upon by the person holding it *pro tempore*, then it is entitled to the name of a *Negotiable Instrument*, and the property in it passes to a *bonâ fide* Transferee for value, though the transfer may not have taken place in market overt. But that if either of the above requisites be wanting, *i.e.*—if it be either not accustomably transferable: or though it be accustomably transferable, yet, if its nature be such as to render it incapable of being put in suit by the party holding it *pro tempore*, it is not a *Negotiable Instrument:* nor will delivery of it pass the property of it to a vendee, however *bonâ fide*, if the Transferee himself have not a good title to it, and the transfer be made out of market overt

"Bills of Exchange and Promissory Notes, whether payable to order or to bearer, are by the Law Merchant Negotiable in both senses of the word. The person who, by a genuine indorsement, or where it is payable to bearer, by a delivery, becomes holder, may sue in his own name on the contract, and if he is a *bonâ fide* holder for value, he has a good title, notwithstanding any defect of title in the party whether Indorser or Deliverer, from which he took it. The first question is, therefore, whether this Instrument is a Promissory Note. It is under seal, and therefore is *primâ facie* a **Covenant**, not a **Promise**: *and it is quite clear that a Covenant to pay money is not Negotiable by the custom of merchants*

"When a corporation is established for trading purposes, it is from its nature capable of drawing a Bill of Exchange and making the Promise implied by law from making a Bill, and is liable to be sued in assumpsit, though a body corporate. This is not by virtue of any Statute but from the Common Law. But all such Bills of Exchange in practice always have been made under hand, by an agent authorised to draw or accept as the case may be. The East India Company, by their secretary, the Bank of England, as anyone who looks at a Bank of England Note may see, make their notes by an agent: *and there is no case in the books where a Bill of Exchange made under seal has been sued upon*

"The Negotiability of Promissory Notes depends in part at least upon the Statute 3 and 4 Anne, c. 9: and it seems to have

been the opinion of Lord Justice Wood, in *Re General Estates Co.;* and of Malins, V.C., in *Re Imperial Land Co. of Marseilles*, that inasmuch as that Act enacts that Promissory Notes in writing, &c., it follows that a Corporation fixing its seal to a written promise to pay must be considered as *signing* the promise, not as covenanting under seal to fulfil it: and so that Statute by implication enacts that, what would at Common Law be their Covenant to pay, is their Promise to pay. But although intimating their opinion, neither of the learned persons referred to gave any decision on the point, as it was not necessary for the purpose of the cases before them. Neither is it necessary for us to decide the point, as, for reasons which will presently be given, the Instrument in question, even if under hand, could not be a Promissory Note; but we wish to point out that in *Glyn* v. *Baker* the form of the East India Bond was that the East India Company acknowledged to have received of W. G. Sibley £100, which the Company promised to repay to Sibley, his executors, or assigns, by indorsement. It was therefore in form a Promissory Note for value received, payable to order, and had it been signed as such by an agent of the East India Company, would have been negotiable. But it was a bond under the seal of the East India Company and Le Blanc, J., says—'It is clear that no action could have been brought on this bond but by Sibley the Obligee, or in his name: or if he died, in the name of his executors'

"The alarm occasioned by this decision was so great that within a month afterwards an Act, 51 Geo. 3, c. 64, was passed to make East India Bonds negotiable like Promissory Notes. It seems not to have occurred to any one that it could be said that this was already done by virtue of the Statute of Anne, the promise in writing being signed by the East India Company's seal

"This seems a strong authority for saying that instruments under the seal of a body corporate are not exceptions from the general rule laid down in Byles on Bills that 'at Common Law, Bills of Exchange and Promissory Notes, being simple contracts, can not be under seal, at least so as to retain their negotiable qualities.' And certainly it is very desirable that it should not be left doubtful on the face of an instrument whether it is a covenant or a promise

"But it is not necessary to decide in the present case whether an instrument under the seal of a Corporation can be a Promissory Note: for the contract of the Credit Foncier is not merely to pay the money, but also to cause a portion of the bonds to be drawn in the stipulated manner: and any one entitled to sue on the contract contained in the instrument would be entitled to sue for damages if the company did not fairly give him his chance of having his bond drawn according to the stipulated conditions. And it is obvious that such a contract as that cannot be a Promissory Note . . . . . .

"*He is also obliged to contend that they could give a Right of action in his own name to any holder, though* **the general law would give no such Right of action to the holders.** *There is no decision or authority that it is competent to a party to create by his own act a transferable Right of action on a Contract.* It is enough to refer to *Dixon* v. *Bovill* and *Thompson* v. *Dominy* as authorities that he cannot, irrespective of custom, so create it . . . . . .

"We have already intimated an opinion that it is beyond the competency of the parties to a contract to confer on the assignee of that contract a Right to sue in his own name"

The Court then made the rule absolute to enter the verdict for the defendants: but giving a Right to appeal. No appeal, however, was made: and we have only to consider how the doctrines laid down in it are affected by another case

Points of Conflict between the Principles laid down in this Case, and those laid down in the Author's Digest

67. It will be seen that the principles laid down in this case directly conflict with the principles laid down in the author's Digest, with the private approval of the Law Digest Commissioners, in the following points—

I. "*The general rule is that a Chose-in-action cannot be transferred at law at all*"

It has been shown that this general assertion comprehends four distinct propositions: the first three of which are absolutely unfounded: and the fourth had been reduced to a mere technical objection for centuries

It may well excite surprise that a Judge of the legal fame of Lord Blackburn should, in the year 1873, lay down the broad sweeping doctrine that " A Chose-in-action cannot be transferred in law at all "

It is a principle of law as well established as the Great Pyramid, that if a Creditor directs, or authorises, his Debtor to pay his debt to a third person, and if the Debtor assents to the arrangement, and communicates such assent to the third person, an irrevocable contract is created, which cannot be broken without the consent of all the the parties to it : and then the third person can sue the Debtor in his own name

This principle was expressly stated in many cases ; among others in *Tatlock* v. *Harris* (3 T. R., 174). *Fairlie* v. *Denton* (8 B. & C., 395). *Williams* v. *Everett* (14 East, 582). *Hodgson* v. *Anderson* (3 B. & C., 482). *Lilly* v. *Hays* (5 A. & E., 548). *Walker* v. *Rostron* (9 M. & W., 411). *Hamilton* v. *Spottiswoode* (4 Ex., 200). *Griffin* v. *Weatherby* (L. R., 3 Q. B., 753)

In this last case Lord Blackburn said—" Ever since the case of *Walker* v. *Rostron*, it has been considered as settled law that where a person transfers to a Creditor, on account of a debt, whether due or not, a fund actually existing or accruing in the hands of a third person, and notifies the transfer of it to the holder of the fund, although there is no legal obligation on the holder to pay the amount of the debt to the Transferee, yet the holder of the fund may, and if he does, promise to pay to the Transferee, then that which was merely an equitable right becomes a legal right in the Transferee, founded on the promise : and the money becomes a fund received, or to be received for and payable to the Transferee : and when it has been received an action for money had and received to the use of the Transferee lies at his suit against the holder "

Now, how is the doctrine assented to by Lord Blackburn in *Griffin* v. *Weatherby* reconcilable with his dictum in *Crouch* v. *Credit Fonçier of England?*

Lord Blackburn's dictum would assert that the principle of *Novatio* is not allowed by the Law of England. But this is expressly described by Bracton as part of the Law : and was always recognised by the Courts. In Bracton's times, no action could be founded on a contract unless it was reduced to writing ;

i.e., a Deed or Specialty; and, in 1292, we find an action brought by the Assignee of a Specialty : and actions by Assignees of Specialties made assignable by the Obligor were uniformly allowed by the Courts until they fell under the sway of the dogmatism of Lord Kenyon. The case of *Glyn* v. *Baker*, in 1810, was the first case in Law in which it was held that the Assignee of a Bond had no action against the Obligor : and the case of *Crouch* v. *The Credit Foncier of England*, in 1873, will be the last

In 1857, Willes, J., a judge second to few, said in *Balfour* v. *The Sea Fire Life Assoc.*, (3 C. B. N. S., 308)—"The Court there (in a case 37 Hen. VI.) seem to have considered that there could not be an assignment of a Debt. That doctrine has, as every one must know, long since exploded, certainly so long since as the year 1791, and probably two hundred years before"

II. "*It is quite clear that a Covenant to pay money is not Negotiable by the Custom of merchants*"

It has been shown that by a uniform series of decisions for centuries, the Courts of Law had held that wherever an Obligor created an Obligation payable to payee and assignee, the assignee might sue the Obligor in his own name. And it has further been shown that the merchants whom Lord Holt consulted said that it was the custom among merchants to transfer Bonds by Indorsement like Bills of Exchange

III. "*And there is no case in the books where a Bill of Exchange made under Seal has been sued upon*"

We have shown in the next section that for many centuries Bills of Exchange and Promissory Notes were sealed and delivered as deeds. It was only during the seventeenth century that merchants began to use signed Bills and Notes : and for a considerable time bills sealed or signed were used indifferently and considered of equal validity

In *Vanheath* v. *Turner* (Winch, 24), in 1621, Vanheath brought an action against Turner, and declared upon the Custom of Merchants that if any merchant over sea deliver money to a factor, and make a Bill of Exchange *under his* **Seal**, &c.

Also in *Shelden* v. *Hentley* (2 Show., 160), in 1680, the Declaration was on a note *under* **Seal**. Jones, J., "At the time of the sealing whose *Deed* was it ?" The Court said—"The

person seems sufficiently described at the time that it is made a **Deed**"

So also in *les Termes de la Ley*, published in 1708, it is said that merchants were claiming the same right to bring action on **Signed** bills as on **Sealed** Bills

Moreover, the Judges in Lord Holt's cases unanimously admitted that Bills and Notes under seal were legal : their objection to *signed* notes was that it was making a mere piece of paper equal to a specialty

IV. The case of *Glyn* v. *Baker* is quoted as an authority : but this case is the direct result of Lord Kenyon's ruling : and is directly in conflict with all preceding cases : and is certainly not law

V. "*There is no decision or authority that it is competent to a party to create by his own act a transferable Right of Action on a Contract*"

This is a repetition of the dogma of Lord Cranworth in *Bovill* v. *Dixon :* and of Parke, B., in *Thompson* v. *Dominy* (14 M. and W., 407)—" I never heard it argued that a contract was transferable, except by the Law Merchant "

In answer to this we can only express our astonishment that Judges of such experience should give utterance to such sentiments in the nineteenth century : *cujus contrarium est verum*

VI. The judgment that the document declared upon was not a Promissory Note. It may not have been a Promissory Note in the strict and technical sense in which the word is now used : but it was an Obligation, and therefore transferable by the general principle of Law applicable to all Obligations

On the Case of **Goodwin** *v.* **Robarts**

68. At length this great quarrel was brought to a final settlement and determination in the case of *Goodwin* v. *Robarts* (L. R., 10 Exch., 337), beyond all comparison the most important Mercantile case in modern times ; or, indeed, of any time

The Russian Government, being about to raise a loan on Bonds, appointed Messrs. Rothschild their agents

Messrs. Rothschild issued Scrip for these £100 Bonds, as a Receipt for £20 paid on account of the Bonds: and as payment of the successive instalments at the times specified, the **Bearer** was to receive the definitive Bonds

In February, 1874, the plaintiff purchased £200 of the Russian scrip on which the instalments were fully paid up in advance; and left it in the hands of his broker; who improperly, and contrary to good faith, pledged it with the defendants as security for a loan

The broker became bankrupt, and the defendants sold the Scrip, in the usual way of business, and in ignorance of the plaintiff's title

It was proved that such Scrip for Loans to foreign governments, entitling the bearers thereof to Bonds, had been well known to, and largely dealt in by bankers, money dealers, and members of the Stock Exchanges, English and Foreign, for above fifty years: and such persons had, during that period, bought and sold such Scrip, and lent money on it; and dealt with it in every way as a Negotiable Instrument, transferable by delivery

The question was whether such Scrip was, in point of law, Negotiable: so that the defendants, the innocent holders for value, might retain the proceeds from the true owners of it

This case, it will be observed, extended the question of Negotiable Instruments: because all Instruments hitherto found to be Negotiable, had been actual Obligations to pay Money: but this was only a Promise to deliver an Obligation to pay Money

The Court of Exchequer unhesitatingly gave judgment for the defendants

The case was then taken by Appeal to the Court of Exchequer Chamber, and Judgment was given by the Lord Chief Justice Cockburn on the last day of its existence, July 7, 1875

In the course of the argument before the Court, Lord Holt's cases, so often alluded to, had been cited, and the Lord Chief Justice spoke of them in terms of the strongest condemnation, and said that they were a blot upon our judicial history

The Lord Chief Justice, having reviewed all the arguments against the negotiability of the Scrip, especially the views expressed in the preceding case of *Crouch* v. *The Credit Foncier of England,*

that it is not competent for any one to create floating rights of action against himself, said—

"Having given the fullest consideration to this argument, we are of opinion that it cannot prevail. It is founded on the view that the Law Merchant thus referred to, is fixed and stereotyped, and incapable of being expanded and enlarged so as to meet the wants and requirements of trade in the varying circumstances of commerce. It is true that the Law Merchant is sometimes spoken of as a fixed body of law, forming part of the Common Law, and, as it were, coeval with it. But as a matter of legal history, this view is altogether incorrect"

The Lord Chief Justice then proceeded to speak of Bills of Exchange and Promissory Notes, and said that the common notion that Promissory Notes were not used in England till the end of the seventeenth century was a mistake. "Mr. Macleod shews that Promissory Notes payable to bearer, or to a man and his assigns, were known in the time of Edward IV"

After referring to several of the cases before cited, he said—"Thus far the practice of merchants, traders, and others, of treating Promissory Notes, whether payable to order or to bearer, on the same footing as Bills of Exchange, had received the sanction of the Courts, but Holt having become Chief Justice, a somewhat unseemly conflict arose between him and the merchants as to the Negotiability of Promissory Notes, whether payable to order or to bearer: the Chief Justice, taking what must now be admitted to have been a narrow-minded view of the matter, setting his face strongly against the negotiability of these instruments, contrary, as we are told by authority, to the opinion of Westminster Hall: and in a series of successive cases persisting in holding them not to be negotiable by indorsement or delivery. The inconvenience of trade arising therefrom led to the passing of the Statute of 3 & 4 Anne, c. 9, whereby Promissory Notes were made capable of being assigned by indorsement, or made payable to bearer, and such assignment was thus rendered valid beyond dispute or difficulty

"It is obvious from the preamble of the Statute, which recites that '*it had been held* that such Notes were not within the custom of merchants' that these decisions were not acceptable to the profession or the country. Nor can there be much doubt that by

the usage prevalent among merchants, these Notes had been treated as securities negotiable by the customary method of assignment, as much as Bills of Exchange properly so called. The Statute of Anne may, indeed, practically speaking, be looked upon as a **Declaratory** Statute, confirming the decisions prior to the time of Lord Holt"

The Lord Chief Justice then, having reviewed several other cases, came to the case of *Crouch* v. *The Credit Foncier of England*, in his own Court, but decided in his absence. He expressed disapproval of the reasons given for the judgment, that it was not competent for the Company to make instruments negotiable which were not negotiable at Common Law : though, he said, the judgment might be supported on the ground that the usage was not proved to be general. "We cannot concur in thinking that if proof of general usage had been established, it would have been a sufficient ground for refusing to give effect to it that it did not form part of what is called the ancient Law Merchant . . .

"If we could see our way to the conclusion that in holding the scrip in question to pass by delivery, and to be available to bearer, we were giving effect to a usage incompatible either with the Common Law or with the Law Merchant as incorporated into and embodied in it, our decision would be a very different one from that which we are about to pronounce. But so far from this being the case, we are, on the contrary, in our opinion only acting on an established principle of that law in giving legal effect to a usage, now become universal, to treat this form of security, being on the face of it expressly made transferable to bearer, as the representative of money, and, as such, being made to bearer, as assignable by delivery"

The Court then affirmed the Judgment of the Court of Exchequer. Thus all the Courts of Common Law held that the Scrip was a Negotiable Instrument

The Lord Chief Justice had the Paper we prepared for the Law Digest competition before him, and, in the course of the Judgment, he did the author the very high honour to refer to it as follows—

"We find it stated in a Law Tract by Mr. Macleod, entitled 'Specimen of a Digest of the Law of Bills of Exchange,' printed, we believe, as a Report to the Government, but which, from its

research and ability, deserves to be produced in a form calculated to ensure a wider circulation," &c. From these terms it is evident that he assented to the course of the argument taken in it

Choses-in-action *made* Transferable *by Statute, without the* Consent *of the* Debtor

69. The Courts of Law never adopted the suggestion of Ashhurst and Buller, that they should drop the formality of requiring the Transferee of a Debt to sue in the name of the Transferor. But this has at length been done by the Act, Statute 1873, c. 66 : in sect. 25, § 6 of that Act it enacted—

"Any absolute assignment by writing, under the hand of the assignor (not purporting to be by way of charge only) of any Debt or other legal *chose-in-action*, of which express notice in writing shall have been given to the Debtor, Trustee, or other person from whom the Assignor would have been entitled to receive or claim such debt, or *chose-in-action*, shall be, and be deemed to have been effectual in law (subject to all equities which would have been entitled to priority over the right of the assignee, if this Act had not passed), to pass and transfer the legal right to such Debt, or *chose-in-action*, from the date of such notice, and all legal and other remedies for the same, and the power to give a good discharge for the same, without the concourse of the assignor : provided always, that if the Debtor, Trustee or other person liable in respect of such Debt, or *chose-in-action*, shall have had notice that such assignment is disputed by the assignor, or any one claiming under him, or of any other opposing or conflicting claims to such Debt, or *chose-in-action*, he shall be entitled, if he think fit, to call upon the several persons making claim thereto to interplead concerning the same, or he may, if he think fit, pay the same into the High Court of Justice, under, and in conformity with, the provisions of the Acts for the relief of Trustees"

It will be seen that this clause confers the Right upon Creditors to transfer their Debts, or *choses-in-action*, without the consent of the Debtor ; and, consequently, if the holder of an obligation not made transferable by the express will of the obligor, gives notice to the Debtor in terms of this clause, he can maintain an action on it. But it still leaves untouched the case of an Obligation

created transferable with the express consent of the Obligor, which is transferred without a written notice to the Debtor, and in such cases, which form the great majority of such transactions, the Rules of the Common Law still apply. But if there should be any doubt on the point, which we contend there never was, it is provided for in § 11 of the same section, which says—

"Generally in all matters not hereinbefore particularly mentioned, in which there is any conflict or variance between the Rules of Equity and the Rules of the Common Law with reference to the same matter, the Rules of Equity shall prevail"

Thus the Mercantile Law of England is now assimilated with that of all Europe

Section IV

Upon Instruments *of* Credit

70. Credits or Debts, then, being Commodities, or Merchandise, may be sold or transferred as freely as any material chattels: but so long as they remain in the mere invisible and intangible form of a Right of action, they cannot be the subject of manual delivery

But we have seen that the Greeks hit upon the plan of recording this Right upon some material: and when this was done the Right itself became capable of manual delivery like any material chattel

When the Credit or Debt is recorded on paper or other material, it is termed an **Instrument** *of* **Credit**, or *of* **Debt**: and it must be observed that when used in this sense the word **Instrument** has a technical meaning which is often overlooked

The word **Instrument** has two distinct meanings—

1. Sometimes it means a tool, or implement, or means by which some purpose is effected. Thus Edgar says in *Lear*—

> "The Gods are just, and of our pleasant vices
> Make **Instruments** to plague us"

So Smith speaks of Money as the "Great **Instrument** of Exchange" or "**Instrument** of Commerce"

2. But when Bills and Notes are termed **Instruments** *of* **Credit** or *of* **Debt**, the word has quite a different meaning from what it has in the phrase **Instrument** of Exchange

The term Instrument of Exchange denotes the *means* by which exchanges are affected: the term Instrument of Credit means the Record or Document, or written evidence of the Debt

In Roman Law, **Instrumentum** means any evidence, whether oral or written, by which a Court or Judge was in-

formed of a fact: or of the merits of the case. Thus Suetonius speaks of the **Instrumenta Imperii**, the written records of the Empire: Quintilian speaks of *Instrumenta Litis*, the papers or documents relating to a cause: Tertullian and Erasmus call the Christian Scriptures the *Novum Instrumentum*

This meaning is very common in English. Thus out of innumerable examples we may quote from Hallam—"Is abundantly manifest by the *Instruments* of both the Kings" . . . . "by mutual *Instruments* executed at Calais": so Brougham, speaking of the Declaration of American Independence, says—"as the clock struck the hour when that mighty **Instrument** was signed"

In these and similar cases the word *Instrument* means a written Document or Record

In English Law the word Instrument is restricted to *written* evidence: and is thus equivalent to **Document**: which is any writing which teaches or informs the Court of a fact: it means simply a written record

Hence an Instrument of Credit, or of Debt, means any written evidence of Debt. In Courts of Law and legal treatises these documents are invariably termed *Instruments*

Instruments of Credit are usually said to be of three forms—

1. Orders to pay money
2. Promises to pay money
3. Mere acknowledgements of Debt: such as an I O U

But besides these there is a fourth form, though it is not usually classed under that term, namely, Credits or Debts recorded in the books of Bankers, termed in banking language, **Deposits.** All these are written evidences or record of Debts

71. It is well known that for a long time the origin of Bills of Exchange was involved in great obscurity. Many writers attributed them to the Jews, who were severely persecuted and expelled from France in 1181 by Philip Augustus. It has been repeated by multitudes of writers that the Jews invented Bills of Exchange at this period in order to transmit their effects to foreign countries. But such an idea could only have arisen from an entire misconception of the nature of Bills of Exchange, and of an Exchange. However, the mystery is now completely

cleared up. We have seen that they were the invention of the Roman bankers, and that their use was quite common in the time of Cicero: and their use never died out: although from the troubled state of the countries involved in the fall of the Roman empire, dealings in Credit between distant towns almost ceased: and the use of Bills of Exchange may have fallen into abeyance

An Austrian friend of ours has informed us that in a Sclavonic chronicle of the fifth century, he has found a provision that if Russian merchants died at Constantinople, the value of their property should be remitted to Russia by Bills

72. In the eleventh century Europe had again begun to assume a somewhat more settled state. The cities of Lombardy especially devoted themselves to commerce: and Gallenga says that a treaty between the city of Asti and Humbert II. of Savoy in 1095 shows that the cities of the Asti and Chieri had already begun to introduce the system of Bills of Exchange and Banking into France and England

Weber says that Bills were in common use in Venice in 1171. A charter granted to the city of Hamburg in 1189 authorised them to deal in Bills. In 1243 a statute of Avignon relates to *litteræ cambii*: and one of Venice in 1272

About this period the system of Bills of Exchange received an immense extension. In the times of the Crusades, the Popes claimed the right to tax all Christendom for their support. They had their own money dealers termed *Cambiatores*, who kept tables in the Cathedrals to exchange the money of foreigners who came to worship. These persons sent their own agents into different countries to collect the Papal tribute. As soon as they collected a sum they sent the Pope Bills upon their principals and correspondents. These Bills were called *Litteræ Cambitoriæ*. In the twelfth century Florence became very famous for this "banking" business, as it was called. Lucca, Siena, Milan, Placentia, and other towns, were also famous for it. Cahors, in France, also became a great Monetary or Banking centre: and the name of *Caorsini* became synonymous with usurers: and Dante places them in the Inferno in very strange companionship for this imaginary crime

In 1229 these persons were first introduced into England. The Pope sent his chaplain Stephen and a nuncio to demand a tenth part of all the moveable goods of all persons, lay and clerical, in England, Ireland, and Wales to support his war against Frederick Barbarossa. The feeble king agreed to this extraordinary demand : but in a Parliament held to consider it, the lay lords indignantly refused to subject their lands to the Pope. The unfortunate ecclesiastics had no resource but to yield. The Pope drew bills upon all the bishops and abbots, which they were obliged to honour under the threat of excommunication. A detachment of Caorsini came over with the nuncio to London, and settled there in order to lend money at heavy interest to the bishops to enable them to meet the Pope's drafts

Ranke says—" As it has been observed that the business of exchange, or banking, in the middle ages received its chief extension from the nature of the Papal revenues, which, falling due throughout the world, had to be remitted from all quarters to the Curia "

We have no notices as to when the use of Bills of Exchange by merchants became general. The oldest Commercial Bill of Exchange known to exist is dated 1381, in the following terms—

"Al nome di Dio. Amen. A primo di Februario, MCCCLXXXI., pagate per questa prima lettera ad usanza, da voi medesimo libre 43 de' grossi, sono per cambio de' ducati 440, che questi chi hone recevuto da Sejo el Compagni attramente le pagate "

Another is quoted by Capmany, an eminent Spanish writer, which was drawn in 1404 by a Lucchese merchant of Bruges on his correspondent at Barcelona, and negotiated at Bruges, but dishonoured at Barcelona. It is in these terms—

" Al nome di Dio, Amen. A di Aprile xxviii., 1404. Pagate per questa prima di camb. a usanza, a Pietro Gilberte e Pietro Olivo, scuti mile a sold. x. Barcelonesi per scuto: e quali scuti mille sono per cambio che con Giovanni Colombo a Gressi xxii de gresso per scuto, et Pon. a nostro conto : et Christo vi guardi

" Antonio quart. Sab. di Brugis "

From the terms in which these Bills are drawn it is quite evident that they must have been long in use. In the Archives of Venice there are a considerable number of Bills of Exchange of

the 15th century, drawn by Venetian merchants on their correspondents in London, but sent back protested for non-payment. In none of these Bills are there any words of negotiability, just as there need not be in a Scotch bill at the present day. Many writers have been puzzled to know when Bills of Exchange became negotiable. Some attribute this invention to Cardinal Richelieu. But the investigation in the preceding section has cleared away all mystery on the subject. They were negotiable by the general Law of the Empire, which enacted that all Debts and Rights of action were as saleable as any other chattel

73. Obligations, by the Common Law of England, were not payable to any one but the payee, without the consent of the Obligor. Accordingly at a very early period it was usual to make obligations payable to the payee, or his attorney, equivalent to the modern or "order." Matthew Paris quotes an obligation of the Prior and convent of N., dated 1235, and made payable to certain Milanese merchants in London, *aut uni eorum vel eorum certo nuncio*

The Statute of Merchants, 11 Edward I. (1283), is the first law noticing mercantile Obligations. It enacts that, if their debtors did not pay at the agreed upon time, the merchants might bring them before the proper authorities, and the clerk should draw up an "escrit de Obligation" or a "lettre de Obligation," which the official translation renders Bill Obligatory, to which the Debtor was to affix his seal; binding him to pay on a certain day

In the thirty-first year of his reign, Edward I. granted a Statute to the City of London for the protection of foreign merchants, which enacted that they might pay the customs duties on their exports by Bills on their principals or partners

74. It has been very generally supposed that Bills of Exchange were only in use among foreign merchants, and that Obligations in the form of Promises to pay were wholly unknown to commercial usage and the Common Law. This, however, is erroneous. There exists a work called Arnold's Chronicle, first published in 1502, but supposed to have been taken from an earlier work, containing many of the customs of

the city of London in the reigns of Edward IV. and Henry VII. Several forms of Obligation are given in this work as being in common use. There are several forms of Bills of Payment, *i.e.*, Promissory Notes made payable to payee or his "atturnai," equivalent to " or order." One form is thus given—

Byll *of* Payment

" Be it knowen to all men, me A. B. de civitat. L. in countee of M. marchaunt, to be bounde be thes present obligacion to F. G. of C. in ye counte of K. 1. xii. li lawful money of England to be paid to ye said F. G. or to his *certeyne atturnai*, his eiers or executurs, at the fest of Sanct. M. tarchaungel next comyng aft' ye date of this present without further delai, to the which paiment wel and truli to be made, I bynde me my eiers and myn executors be theis presents sealed with my seale yeven ye furst day of ye monethe of M. ye yere of ye regne of K. H. ye VII. after ye conquest ye fust "

Another is made payable to assigns—

Byll *of* Payment

" Memerand' this byll made the iiij day of Julij in ye xix. yere of the reigne of Kyng Edward the iiij beryth wytnesse yt we Ric. Shirlee of London grocer and Thomas Shirlee of London haburd' owen unto W. Warboys and John Benson of London haburd' xxxviij s. ij d. stg. to be payd to the said W. and J. or to ether of them, to their eyers ther executors, or *to their* ASSIGNES, ye furst day of Julij next comyng wythout ony delay, to the whiche payment wel and truly to be made we binde us our eyers, executors, and our assignes, and eche of us in the hoole. In wytness wherof we set to oure seales the day and tyme afore rehersed "

A form also is given of a Bill of Exchange payable to bearer—

Lettre *of* Exchaunge

" Be it knowen to alle men yt I R. A. citezen and habd' of London have ressd by exchaunge of N. A. mercer of the same cite

xx. li. stg. whiche twenty ponds stg. to be paid to the said N. or *to the* BRINGER OF THIS BYLL, in synxten marte next comyng for vi. s. viij. d. stg. ix. s. iiij. g. fllg. money currant in the said mart, and yf ony defaut of payment be at the day in alle or ony part yerof that I promyse to make good all costis and scathes that may grow therby for defaut off payment as well as the principal some bee this my furst and second lettur of payment and herto I bynde me myn executors and alle my goodis whersoever they may be founde. In wytnesse wherof I have written and sealyd this byll the x day of Marche Ao. Dni. MCCCC. lxxxvij "

These common forms establish the fact that in the time of Edward IV. it was usual to draw Bills of Exchange in the form of Promissory Notes, and to make them payable to bearer ; and also that Promissory Notes payable to " order " or to " assigns " were in common use. And as they were given as common forms at that period, they must have originated long before, but how long it is impossible to say. There is no instance, however, of such documents having been brought before a Court of Law, which may shew that our ancestors were more punctual in their payments or less litigious than their descendants. If one of these documents had come before a Court of Law, we may be certain that it would have recognised its validity, just as annuities made assignable by the grantor were recognised

Mr. Lawson also gives a copy of a Bill of Exchange drawn in the form of a Promissory Note in the reign of Elizabeth—

" Witnesseth this present bill of exchange that I, Robert Anderson, merchant of the city of Bristowe, doe owe unto Thomas Mun, Merchant of the said city, the sum of 100 ducats ; I say an hundred duckets of current monie of Spain, accompting after 11 rials of plate to the ducket ; to be paid into the said Thomas Mun, *or his* ASSIGNES, within 10 daies next and yemediately after the safe arrivall of the good ship called the Gabriel of Bristowe to the port of S. Lucai in Andalousia in Spaine, or any port of the discharge. And for the true paiment thereof, I, the above named Robert Anderson do bind me, my goods, my heirs, executors, and assignes, firmly by these presents. In witness of the truth, I have caused two of these bills to be made (the which the one being

paied, the other to be voide) and have put my firme and seale into them, and delivered them as my deed in Bristowe, the 15th day of September, 1589, and in the 31 yeere of our Sovereign Queen Elizabeth her Majesties reigne"

The first observation we have to make on this document is that in the present day it would not be recognised as a Bill of Exchange at all, as it is made to depend upon an uncertain event, the arrival of the ship in harbour.

We next observe that all these Obligations, Bills of Exchange, Bills of Payment, Bills Obligatory, &c., were specialties or deeds, and not mere parol contracts, as they are considered at present, and therefore they required no consideration to make them valid. It was enacted, as we have seen, by Justinian, that any obligation in writing should bind the obligor; consequently a written obligation in Roman Law had the same effect as a deed or specialty in English Law. In process of time the formality of sealing was discontinued in England, but it must be observed that Bills and Notes are not merely simple contracts in English Law as is so often said. They are, in reality, in their origin, deeds with the formality of sealing thrown off

75. At this time it was perfectly indifferent whether Obligations were drawn in the form of Orders to pay or of Promises to pay: they were equally valid at Common Law: "*non figurâ litterarum, sed oratione quam exprimunt, obligamur.*" "We are not bound by the form of the writing, but by the intention which it expresses," is equally common sense, and Roman and English Law

A Bill of Exchange in former times meant an Obligation to pay the Value of a certain amount of the Money of one country in the Money of another, at a certain rate of exchange. It was usual to draw the Obligation in the form either of an Order to pay, or of a Promise to pay. When the Obligation originated with the Creditor, it naturally was in the form of an Order to pay: when it originated with the Debtor, it was naturally in the form of a Promise to pay. An Obligation payable within the country itself was called an Inland Bill

The word **Bill** meant any writing whatever, including

Deeds. In Marlowe's *Faustus*, when Faustus is selling his soul to Mephistopheles, he tells Faustus that he

> "Must write it down
> In manner of a **Deed** of Gift"

Faustus, seeing his blood stop flowing, says—

> "Is it unwilling I should write this **Bill**?"

and then—

> "*Consummatum est:* this **Bill** is ended"

Then says Mephistopheles—

> "Speak, Faustus, do you deliver this as your **Deed**?"

The word **Note** had exactly the same meaning. So that the words *Billa* and *Nota* meant any writing, whatever its form might be

The name of Promissory Note seems only to have been adopted if, indeed, it was not first given, by the Statute of Anne. Before that time such Documents were called "Bills of Payment," "Bills of Debt," "Bills of Credit," "Bills of Obligation." Bank Notes were called "Bank Bills." In the Act establishing the Bank of England, its Notes are termed "Bills of Credit," and "Bills Obligatory." In one case, a Note for the payment of Money was termed an Inland Bill by the Court. In another case, two Goldsmith's or Banker's Notes were declared upon as Bills of Exchange: and they were called Bills throughout the case. In another case it is said—"If a merchant's apprentice draws a *Bill* (as I do promise to pay such a sum for my master) to charge the master with the *Note*." So, in several cases, Bank Notes are called Bills. In many parts of the country at the present day, Bank Notes are still called Bank Bills: and the words Bank Notes would not be understood

It has now been clearly shown that the opinion which prevailed so long in our Courts of Law that Promissory Notes are not transferable at Common Law: and that they were unknown to Mercantile usage until the end of the seventeenth century, is entirely erroneous, both in Law and Fact

Since, however, the series of erroneous decisions in the King's Bench, which gave rise to the Statute of Queen Anne, the word **Bill** has been restricted to Orders to Pay : and the word **Note** to Promises to Pay. Hence, in reading old cases and books, it must be observed that the words Bill and Note were used quite synonymously to mean an Obligation in either form : since the word **Bill** is restricted and appropriated to **Orders** to pay : and the word **Note** to **Promises** to pay

76. Considerable obscurity prevails as to the subsequent history of Instruments of Credit in England. The next writer on the subject is Gerald Malynes, a London merchant, who published his *Lex Mercatoria* in 1622. It is remarkable that he expressly says that Bills Obligatory, or of Debt, which (as has been shown above) were in common use in the reign of Edward IV., were not used in England. In chapters 11, 12, and 13, he gives a full account of these Bills, which were used by the merchants of Amsterdam, Hamburg, Middleborough, and other places, and explains their great convenience ; but he says—"The Common Law of England is directly against this course, for they say there can be no alienation from one man to another of debts, because they are held *choses-in-action*, and such whereof no property can pass by assignment or alienation." So also—"This laudable custom is not practised in England"

Marius, the next writer of authority, in 1651, gives several forms of Bills of Exchange, all in the form of *orders* to pay. He takes no notice of the Goldsmiths' or Bankers' Notes, which were certainly then in circulation ; but at p. 6 he speaks of the custom of offering payment of an acceptance by a "note on a Goldsmith"

These "notes," or "cash notes," as they were called, were the origin of the modern CHEQUE

How the strange facts are to be accounted for—that Bills of Exchange in the form of Promissory Notes payable to "bearer" and Bills of Payment or Notes payable to "assigns" or "order," were in common use in London in the 15th and 16th centuries, and then had totally disappeared at the beginning of the 17th century, and reappeared at its close, but supposed to be then a new species of document, so that their former use was not known—it is not easy to say

One great establishment still keeps up the old hybrid form of the obligation, in a species of paper it issues. The following is the form of a

BANK *of* ENGLAND POST BILL

No._____ London, _____ 18___

At seven days sight I promise to pay this my sola *Bill of Exchange, to* _____ *or order,* ONE HUNDRED _____ *sterling value received of* _____

For the Governor and Company of
£ ONE HUNDRED the Bank of England
Entd. _____

On Bills of Exchange, Drafts, *and* Promissory Notes

77. A **Written Contract** by which one person is bound to pay : (1) a certain sum of Money : (2) to a certain Person : (3) at a certain Event : is termed an **Obligation :** a **Security for Money :** or a **Valuable Security**

Definition *of a* Bill of Exchange

A written **Order** from one person to another who **Owes,** or appears to owe him Money as a **Debtor,** directing him to pay absolutely at all events : (1) a certain sum of Money : (2) to a certain person : (3) at a certain event : is in modern language termed a **Bill of Exchange :** or, shortly, a **Bill**

The following is the usual form of a Bill of Exchange :—

£248 14 6 London, May 4, 1883

Three months after date pay to A. B. (or to myself) or order, the sum of two hundred and fifty-eight pounds, fourteen shillings and sixpence, for value received

To Mr. John Cox, WILLIAM SMITH
Strand, London

The person who addresses the letter is termed the **Drawer**: the person to whom it is addressed is termed the **Drawee**: the person to whom it is to be paid is termed the **Payee**

If the Drawee has not already agreed to pay the bill, when it comes into the hands of the Payee, the Payee should take it once to the Drawee, and request him to agree to pay it. If the Drawee agrees to pay the Bill he must write his name across the face of it, usually, but not necessarily, with the word "Accepted": he is then called the **Acceptor**

The Drawer may make the Bill payable to himself; or to A. B. only: or to himself, or to A. B., or order

In England, an ordinary Debtor was never compellable to accept a Bill drawn upon him by his Creditor

But in Scotland, which adopts the Law of Justinian and the Basilica, that a Creditor has the absolute Right to sell his Debt against the consent of his Debtor: a Debtor is bound to accept a Bill drawn on him by his Creditor: and is liable to an action for non-acceptance

This distinction is maintained by the Bills of Exchange Act of 1882

By the Common Law of England, even if a Debtor had accepted a Bill payable to the drawer, or other payee simply, and without the words "or order": the Creditor could not transfer it to another person so as to enable the Transferee to sue the Debtor on his own name

And the Transferee could acquire no better title to it than that of the Transferor: consequently the Bill did not possess the attribute of **Currency**, or **Negotiability**

But in Scotland, Bills of Exchange are transferable and negotiable by their very nature: consequently, they do not require any such words as "or order" to make them Current and Negotiable. And a Bill drawn payable only to the payee in Scotland, being current and Negotiable by the *Lex loci contractûs*, is current and negotiable in England

And since the Supreme Court of Judicature Act, Bills drawn without the words "or order" are also current and negotiable in England: and the presentation of the bill by the Transferee to the Acceptor is a sufficient notice of the Transfer of the Debt

Even if the Drawee refuses to accept the bill, presentment of it to him is sufficient notice of the Transfer of the Debt

But in this case the Right of the Transferee would be dependent on the general state of accounts between the Drawer and the Drawee. If the Drawee had accepted the Bill, he would be absolutely bound to pay it: whatever might be the state of account between the Drawer and himself

Definition *of a* Draft

78. A written Order from one person to another, who **Holds** a sum of Money as a **Depositum,** as the **Bailee, Trustee, Agent,** or **Servant,** of the drawer is termed a **Draft,** or **Order** for the payment of Money

Bills of Exchange and Drafts are of exactly the same form and external appearance. The distinction between them arises from the difference between the relations of the two parties in the two Instruments

In a Bill of Exchange the Drawee is simply the Debtor of the Drawer: the Property in the Money drawn for resides in the Drawee: and the Drawer is his Creditor: that is, he has only a Right of action to compel the Drawee to pay a sum of Money: but he has no Right to any specific money in the Drawee's possession.

But in a Draft, the Property in the Money resides in the Drawee: and the Drawee holds it merely in his custody as a **Depositum**: and he has possession of it merely as the Bailee, Trustee, Agent, or Servant of the Drawer: and if he appropriated it to his own purposes it would be embezzlement

Thus the Chancellor of the Exchequer is the Treasurer of the nation: and the Money he holds belongs to the nation and not to himself. So every great Institution, as a hospital, &c., has a Treasurer who is entrusted with the custody and safekeeping of the money of the Institution. But the moneys in his possession belong to the authorities of the institution: and are only entrusted to him as a **Depositum**: and not lent to him as a **Mutuum**: and he is not their Debtor

When, therefore, the authorities of the institution give an Order upon the Trustee to another person, they are not trans-

ferring a Debt due to them : they are directing their servant to deliver to a certain person certain portions of their own money : which is in the safekeeping of their servant

Also the Treasurer is not personally liable on such orders or Drafts : he is only bound to pay them if he has any money of his masters' in his possession. Consequently, such a Draft or Order is not a **Credit**, or Personal Obligation : it is a Title to a portion of some specific money

Such an Order is not a Bill of Exchange, and is contrary to the fundamental nature of a Bill of Exchange

So, if a Bank has several branches, the Orders granted by the branches upon the Head Office are not Bills of Exchange but *Drafts*

Thus the definition of a Bill of Exchange, which is usually given in law books and in the Bills of Exchange Act of 1882, is essentially defective. In that Act, a Bill of Exchange is defined thus :—

"A Bill of Exchange is an unconditional Order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand, or at a fixed or determinable future time, a sum certain in money, to, or to the order of, a specified person, or to bearer"

Now it is true that every Bill of Exchange is an Order to pay money : but every Order to pay money is not a Bill : the word Order to pay money includes both Bills and Drafts

Definition *of a* Promissory Note

79. An unconditional written **Promise** made by a person to pay, absolutely and at all events: (1) a certain sum of Money : (2) to a certain Person : (3) at a certain Event : is in modern language termed a Promissory Note : or shortly a **Note**

The following is the usual form of a Promissory Note :—

£148 9 10 London, May 4th, 1883

Three Months after date I promise to pay John Jones or order, the sum of one hundred and forty-three pounds, four shillings, and ninepence, for value received

William Johnson

William Johnson is termed the **Maker** of the Note : and John Jones the **Payee**

Upon **Indorsement**

80. When a Bill or Note is made payable to the Payee "or order," the Payee must, when he transfers the Instrument to any one else, write his name on the back of it : hence it is termed an **Indorsement :** the Payee is called the **Indorser :** and the Transferee is termed the **Indorsee**

The Indorser may make the Instrument payable to some special Indorsee only: if he does so it is termed a **Special** Indorsement : and the Instrument can only be paid to that Indorsee

If, however, the Indorser simply signs his own name, and then delivers the Instrument to the Indorsee, it is termed a **General** Indorsement, or an Indorsement **in blank.** The Instrument is then transferable by mere delivery, without any further Indorsement : exactly like a Bank Note or Money : and the Instrument is payable to bearer like a Bank Note

Formerly Indersement was in all cases necessary to transfer the Property in a Bill or Note : but this has long ceased to be the case in English Law. It became the custom of merchants, which has long acquired the force of Law, that any Instrument of Credit indorsed in blank, may be transferred by simple delivery, without any further indorsement

It is, however, the general custom for the Transferee to require the Indorsement of the Transferor : not for the purpose of transferring the title or the Property in the Bill, after the first indorsement: but to retain the Transferor as a security or guarantee for the Payment of the Bill

The effect of the Indorsement is, that if the Acceptor or Principal Debtor does not pay the Bill or Note at maturity : and the owner or holder gives immediate notice to the Indorsers, he can enforce payment from them

But the demand for payment must be made without delay : in almost all cases within twenty-four hours after the fact of non-payment. If the holder of the Instrument delays giving notice he loses his remedy, and the Indorsers are absolved

In modern practice, then, the Indorsement is merely a *limited warranty of soundness*. The difference between buying goods or money with a Bill, with or without Indorsement, is just the same as that of buying a horse, a watch, a carriage, with or without a limited warranty. In all cases of the sale of a horse, or a watch, without a warranty: or, of goods, for a Bill, without the Indorsement of the Transferor, it is an absolute and final sale. If a horse, or a watch, is bought with a limited warranty, and if a defect be discovered and a demand is made within the time limited by the warranty, the sale may be cancelled and the money restored

When the transferor indorses the Instrument he says in effect —"I warrant the soundness of the Debt for twenty-four hours, and no longer"

The general rule of English Law now is that if any Instrument of Credit be taken in exchange for goods or money without Indorsement: or if the period allowed for making the claim in the case of an indorsed and unpaid Bill be allowed to elapse without making the claim: it is a final closing of the transaction. The payment is, in fact, as valid and final as if it were money

Except only in the case of fraud: as if the Transferor knew at the time that he tendered the Instrument that the acceptor, or maker, was bankrupt or insolvent

If, however, the Transferor did not know that the Debtor on the Bill or Note was bankrupt at the time he transferred it in payment, the loss will fall upon the Transferee: because he might have insisted on the Transferor's Indorsement: and if he neglects to do so, he must suffer for his own *laches*

At the time when the Bank of England was founded, the Court of King's Bench had decided that Promissory Notes were illegal at Common Law: consequently, in the Act Statute, 1694, c. 20, s. 29, founding the Bank of England: and in the Act Statute, 1704, c. 8, it was enacted that Bank Notes and Promissory Notes might be transferred by Indorsement on each transfer

In the case, however, of Bank Notes, as their payment was always quite secure, the practice of Indorsement soon fell into disuse. In the case of private bankers of good credit, the indorsement was often omitted. But though the Indorsement was often omitted as superfluous, that in no way altered the character of the

Instrument: and the receiver of the Note took it entirely at his own peril: and ran exactly the same risk as if he took any other Instrument without Indorsement

It is usual in English Bills and Notes to insert the words "for value received": but it is not necessary. In a recent case it was said that they meant nothing more than "your obedient servant" at the end of a letter. And it is quite usual to omit them

On Banking Instruments *of* Credit

81. The Instruments of Credit which we have described above may be called Commercial Instruments, because they arise out of the transactions of merchants. The introduction of Banking into England gave rise to two new forms of paper, which may be called Banking Instruments of Credit

The essential nature of "banking" is, as we have shewn, to create Credit in exchange for money and commercial debts. When a customer pays in money to his account with his banker, the property in the money passes to the banker, and in exchange for it he creates a Credit in his favour in his books, which is repayable on demand; or if he discounts a bill for his customer, he also creates a Credit in his favour. The customer then having so much Credit at his account, if he wished to make a payment, might write a note to his banker desiring him to pay so much to the payee. These Notes, or Cash Notes, as they were called, were the origin of the modern CHEQUE. They were in various forms; sometimes they were made payable to a particular person—

16th Nov., 1689

Mr. Jackson,—*Pray pay to the bearer hereof, Mr. Daniel Croker, five pounds, and place it to the accompt of*

Your loving friend,

To Mr. Roger Jackson, JOHN WYNYARDE

At Sir Francis Child's, Goldsmith,

just within Temple Barr

Sometimes they were simply payable to "bearer"—

Mr. Childe,—*Pray pay unto the bearer the sum of twenty pounds and place it to the account of*

London, Aug. 29, 1689 E. POLLEXFEN

Sometimes they were payable at sight—

Bolton, 4th March, 1684

At sight hereof pray pay unto Charles Duncombe, Esq., or order, the sum of four hundred pounds, and place it to the accompt of

Your assured friend,

To Captain Francis Child, WINCHESTER
near Temple Barre

In many cases they were sealed—

Pray, Mr. Child, pay to Mr. Harrison the sum of a hundred pounds

(Seal) D. TYRWHITT

Sir,—*I pray pay unto Mrs. Ann Richards, or her order, the sum of £15, for your lo: friend,*

To Mr. Child, or Mr. Rogers, THOS. MERES
Goldsmiths, near Temple Barr,
2 Sept., '89 (Seal)

Sometimes they were payable to payee, or bearer—

To Mr. Child and Mr. Rogers July 20th, 1688

Pray pay unto the honorable Dudley North, or bearer, the sum of one thousand pounds, and be pleased to place it to the account of

Your friend and Servant,
YARMOUTH

Sometimes they were payable to order—

3d June, 1683

Pray pay unto the Bearer hereof, Mr. Thomas Dickenson,

or order, the sum of thirty pounds, and place it to the accompt of

Your lo: friend,
PAUL WHICHCOTT

The Duke of Ancaster wrote his "Notes" as follows—

Mr. Robert Child,
Pray pay to my servant, Thos. B., the sum of seventeen pounds, and for so doing this shall be your order under my hand and seal, this 17th day of October, 1707
ANCASTER, G. C. (Seal)

Thus we see that the practice of sealing had not been entirely discontinued then

82. But if the customers wished it the banker gave them his own Promissory Notes for such sums as they pleased. These early Goldsmiths' or Bankers' Notes were not printed, but were just written on plain pieces of paper like the Promissory Notes of private persons. The following is a specimen—

Nov. 28, 1684
I promise to pay unto the Rt. honble. ye Lord North and Grey, or bearer, ninety pounds at demand.
For Mr. Francis Child and myself,
JNO. ROGERS

In July, 1729, Messrs. Child & Co. were the first bankers to adopt printed forms for their Notes. But they were not printed for definite sums like Bank of England Notes, but only like modern cheques—they were partly printed, and the name of the payee and the sum payable were filled in in writing. Sometimes they were payable to bearer, and sometimes to order thus—

Picture of Temple Bar. No. 921 *London, Oct.* 20, 1729
I promise to pay to Mr. Richard Bannister, or order, on demand, twenty pounds
For Fras. Child, Esq.,
£20 SAM. CHILD

Picture of Temple Bar. } No. 1792 *London*, 8 *Decemb.*, 1729

I promise to pay to Mr. Chr. Diggs, or bearer, on demand, thirty pounds.

For Fras. Child, self & Co.,

£30 Sam. Child

There has been considerable doubt as to when London bankers discontinued the issue of Notes. The latest specimen preserved is dated April 12, 1793

These documents are not merely mercantile curiosities; they possess great legal and historical interest. We shall find that when a monopoly was created in favour of the Bank of England, the Act was framed specially in reference to *one* form only of these banking documents, and left the other wholly unnoticed. And it was entirely this omission which left a loophole open in the monopoly clauses of the Act, which, confirmed by a declaratory clause in the Bank Charter Act of 1832, enabled Joint Stock Banks to be founded in London.[1]

[1] We are indebted to the kindness of F. G. H. Price, Esq., of the firm of Child & Co., the oldest banking firm in London, for a sight of these Documents. Temple Bar having shown signs of giving way, in consequence of the excavations made for the foundations of the New Law Courts, the room in it which was rented by Child & Co., and in which the ancient records of the firm were kept, had to be cleared out, when these documents—which cleared up several doubtful points in early Banking—came to light

Section V

On the Extinction *of* Obligations

On the Limits *of* Credit

83. It has been seen in the preceding sections that Credit is the name of a species of Incorporeal Property of the same nature as, but inferior in degree, to Money: and that it fulfils exactly the same functions as Money, as a Medium of Exchange or Circulation. Also that it is Property cumulative to Money : that is, it is over and above Money. Credit is in fact to Money what steam is to water : and while, like that power, its use within proper limits is one of the most beneficial inventions ever devised by the ingenuity of man : its misuse by unskilful hands leads to the most fearful calamities. Credit like steam has its Limits : and we have now to investigate the proper Limits of Credit, and to explain the various methods by which it is extinguished. Because, by its very name and nature, it is always created with the express intention either of being, or of being capable of being, extinguished. It is **Unextinguished Credit** which produces those terrible monetary cataclysms which scatter ruin and misery among nations. It is chiefly by the excessive use of Credit that *over-production* is brought about, which causes those terrible catastrophes called Commercial Crises : and the inability of Credit shops to extinguish the Credit they have created—commonly called the failures of Banks—is the cause of the most terrible social calamities of modern times

The true Limits of Credit may be seen by the etymology of the word. Because *all Credit is a promise to pay or do something in future :* and that something, whatever it may be, is the Value of the promise. That "something" need not necessarily be money. It may be anything else. It may be a promise to do something

The only real difficulty in the case is, as has been before ob-

served, to understand that the mere abstract "Promise to pay" is independent and exchangeable Property, quite distinct from the thing itself, and it circulates in commerce by itself

But of course it is manifest that the Value of the Promise is the Thing itself: and, consequently, if the Thing itself fails, the Promise has lost its Value. This consideration at once shows the Limit of Credit. Assuming the Credit to be, what it is in its best known form in this country, the Promise to pay Money, it is quite clear that so long as a person is in possession of sufficient Money to pay his promise when it falls due, the Credit has not been excessive

Commercial Credit, however, does not rest upon so solid a basis as the *certainty* of being in the possession of money: for then it would be as safe as Money itself, and then losses would be unknown. It is based upon the expectation of being in the possession of Money at a certain time. A trader buys goods, and in exchange for them he gives his *Promise to pay* money, upon the expectation that he will be able to sell the goods for money before the bill becomes due: or at least that he will be in possession of Money before that time. That is, he *produces* or brings the goods to market, and offers them for sale, in the hope that they will be *consumed* or bought. If he brings forward for sale more of any species of goods than are wanted at that time, so that they cannot be sold at all: or if they are sold, at a lower price than they cost: it is *over-production*. He must then pay his bills out of any other funds in his possession; or sell other property to meet them: and if he cannot do so he is ruined

In times of great speculation and rapid fluctuations of prices, there is exceeding danger of over-production by means of Credit: especially that abuse of it called Accommodation Paper, which we shall describe hereafter. A new channel of trade perhaps is opened, and the first to take advantage of it make great profits. Multitudes of others hearing of these profits rush in, all dealing on Credit. The market is overstocked, and prices tumble down, and the Credit created to carry on these operations cannot be redeemed

Or perhaps a great failure of the food of the people takes place: merchants expecting that food will rise very high, buy on Credit at higher prices than usual. If their calculations are

sound, and the price of corn rises to the expected height, they pay their bills and all is well. But in all such cases there is the danger of too many merchants speculating in corn, and that such vast Quantities may be poured in so that the price may fall

Similarly in all changes from peace to war, or from long continued war to peace, great changes in prices take place, producing great destruction of Credit: and at such periods usually many failures occur

The institution of Banks and Bankers who create Currency by means of their Credit, either in the form of Notes or Deposits, gives a great extension to the Limits of Credit: but yet the Principle of the Limit remains the same. Credit always has to be redeemed: and if this can be done the Credit has been sound. Hence Credit is never excessive, whatever may be its absolute amount, so long as it always returns into itself

On the Extinction *of* Obligations

84. We have now to consider the various methods by which Obligations are extinguished. Credit being the Right to demand something to be paid or done, and the Debt being the Duty to pay or do that something, of course that Payment or the Performance of the thing promised fulfils, discharges, and extinguishes the Right as well as the Duty: and thus the Obligation is absolutely annihilated and extinguished. Commercial Credit in this country is always expressed to be payable in money: and it is sometimes supposed that Bills of Exchange are always paid in Money or in Bank Notes. This, however, is a great error. There are other methods by which Obligations are extinguished, besides Payment in Money. And in this country, the amount of Bills which are paid in money, is infinitesimal compared to those which are paid in other ways

There are four different methods by which Obligations may be extinguished: these are—

1. By Release: or **Acceptilation**
2. By Payment in Money
3. By Renewal, or Transfer: or **Novation**
4. By Set off: or **Compensation**

On Release: *or* Acceptilatio

85. We have in a preceding paragraph described how the *Obligatio litteris*, or Written Contract, termed **Expensilatio,** was created. The Creditor, or Lender, having delivered the money to the borrower, asked him if he had weighed out and given him the money. The borrower, or Debtor, acknowledged that he had, and the lender, with the borrower's consent, made a formal entry of the Loan in his Ledger which was termed **Expensilatio:** and the formal entry of the Loan or money received in the borrower's Ledger was termed **Acceptilatio**

When the borrower, or the Debtor, came to repay the Loan the proceedings were reversed. He brought the money to his Creditor and said something of this sort—

"Quod ego tibi promisi, habesne acceptum?"

"*Have you received what I promised you?*"

The Creditor answered—"Habeo, acceptumque tuli"

"*I have, and have entered it as received*"

He then made a formal entry in his Ledger, of "Money received:" and this was termed **Acceptilatio**

As in the case of the **Expensilatio,** this entry when once formally made in the Ledger, was final and conclusive: and could not be questioned

All Contracts or Obligations created by the mutual consent of parties may be extinguished and cancelled or dissolved, by the same mutual consent by which they are created

Consequently, if for any reason whatever the Creditor chose to release the Debtor from his Debt, it was done by the solemn form of **Acceptilatio**

The Debtor went through the legal form of question; and the Creditor made the formal legal answer: and then made the formal entry, **Acceptilatio,** in the Ledger: it was then a valid and final form of **Release:** and it could not be questioned or disputed

Example of the Application of the Principles *of* Algebra *and* Law *to* Commerce

86. We shall now show how the Algebraical doctrine that

$- \times - = + \times +$: and its Legal Equivalent that the **Release** of a **Debt** is in all cases equivalent to a **Payment** or **Gift** of **Money** : are applied in Commerce

Suppose that I owe £100 to a Banker, in how many ways can I pay him ?

1. I may pay him in actual Money : that is $+ \times +$

2. If I have £100 of his Notes : or have an account with him ; I may tender him his own Notes : or I may give him a Cheque on my account : that is, in either case, I **Release** him from his **Debt** to me : that is $- \times -$

That is, **Releasing** the Banker from his **Debt** to me is **Paying** my **Debt** to him

3. I may pay him £50 in Money : and also £50 in his own Notes ; or by Cheque on my account : Paying him in Money is $+ \times +$: tendering him his own Notes, or giving him a Cheque on my account, is $- \times -$: and the combined effect of the two is to discharge and extinguish my Debt of £100

Thus I may pay a Debt to a Banker entirely in Money : entirely in his own Notes, or by Cheque : or partly in Money and partly in his Notes or by Cheque : and the effect of these several modes of Payment is absolutely identical

In the Chapter on Banking we shall give an example of the application of this principle, which may perhaps surprise some students

Thus we see that the doctrine that **Taking Away** a **Negative Quantity** is absolutely equivalent to **Adding** a **Positive Quantity** : or that $- \times - = + \times +$: is universally true in all branches of science

As the Basilica expresses it—

"δύο ἀρνήσεις μίαν ποιοῦσιν κατάθεσιν"

"*Two* **Negatives** *make an* **Affirmative**"

The **Release** *of a* **Debt** *is in all cases Equivalent to a* **Donation** *or* **Payment in Money**

87. Euler, as we have seen above, says that if a man has nothing, and even owes 50 crowns, he has 50 crowns *less* than

nothing. His Property is (— 50) crowns, *i.e.*, he has the *Duty to pay* 50 crowns, and nothing to pay them with

Euler also says that if any one made the Debtor a present of 50 crowns to pay his Debt with, though his Property then would only be at the point 0, he would be 50 crowns richer than before

Euler is right so far as he goes: but he has only stated one-half of the case. Because the same result may be arrived at in another way. As the same result follows whoever gives him the 50 crowns, we may suppose that his Creditor makes him a gift of 50 crowns. The Debtor may then pay the Debt by giving the Creditor back his 50 crowns: and the Debt is discharged: and the Debtor, though now possessing 0, is 50 crowns richer than before

The same result may be obtained in a quicker way: suppose that, instead of the double operation of the Creditor first giving the Debtor 50 crowns, and then receiving them back, he simply **Releases** *the* **Debtor** *from the* **Debt.** Then the Debtor's Property would be 0, and he would still be 50 crowns richer than he was before

Now, if Money be Positive (+), the Gift (+) of Money is $+ \times +$: and if the Debt be Negative (—), the Taking away or Release (—) of the Debt is $- \times -$: which shows that $+ \times + = - \times -$ in Economics; as it does in every other branch of science

This example shows that the **Release** *of a* **Debt** is in all cases exactly equivalent to a **Donation** or **Gift** of **Money:** or to a **Payment** *in* **Money:** a principle of immense importance in commerce: and the application of which may surprise the student

88. So the Digest says—

"Qui Obligatione liberatur videtur cepisse quid"

"*He who is Released from an Obligation has gained*"

And the Basilica—"ὁ ἐλευθερούμενος ἐνοχῆς δοκεῖ τι εἰληφέναι"

So the Digest—"Per accepti quoque lationem egens Debitor etiam eam pecuniam quâ liberatus est, cepisse videtur"

"*An insolvent Debtor being freed by a Release, has gained the full amount of what he is Released from*"

So Pothier says—"A **Release** *is a* **Donation**"

So Ortolan—"The **Release** *from a* **Debt** is always classed as a **Donation** in Roman Law"

So Von Savigny—"A Simple Contract, or the **Release** *of a* **Debt,** may be the subject of a **Donation**"

"The increase of wealth may result from a Credit given to the Debtor, or the Release of a Debt

"Every Release of a Debt enriches the Debtor. The amount of the Donation is always equal to that of the Debt, even though the Debtor is insolvent. Although the Release from a Debt destined never to be paid seems a thing of no consequence, the increase of Property does not the less exist. In effect not only does Property represent a quantity always indeterminate, but its total Value also may be either *Positive* or **Negative**. [Negative Property is a Negative Right, *i.e.*, a Debt or Duty]. If, then, Property is reduced to a Negative Value, the Diminution of Minus is in Law a change identical with the increase of Plus for a Positive Value

"The Release of a Debt always constitutes a Gift equal to the amount of the Debt, even though the Debtor is insolvent"

So the Release of a Debt to a Debtor may be a Legacy

89. This vesting of the *Right to demand* and the *Duty to pay* in the same person was called *Confusio* in Roman Law

How *Confusio* extinguishes a Debt has given rise to much subtle speculation; and for centuries puzzled Jurists and Divines: for the Divines alleged that a Right once created could never be destroyed: and the Jurists said that, the Right being transferred to the Debtor, he cannot sue himself; and therefore that the Debt is extinguished

This explanation, however, is not satisfactory, because in some cases a man can sue himself. He may fulfil two characters or persons: and in one character he may sue himself in another. And, moreover, this would only show that the Right is in abeyance, not that it is actually extinguished: and Jurists have shown that in several cases the Right and the Duty have separated, although they have vested in the same person. The considerations, however, which we have presented will give a complete solution of the case

The **Release** *of a* **Debt** *may* **Extinguish** *an* **Obligation** *in* **Two** *ways*

90. The Release of a Debt may be considered to Extinguish an Obligation in two ways—

First Method.—As the Obligation was **created** by the mutual consent of the two parties: so it may be **cancelled** or **annihilated** by the same mutual consent which called it into existence

Now, by the general principles of the Theory of Signs, if to **Create** an Obligation be denoted by $+\left\{\begin{matrix}+\ £100\\-\ £100\end{matrix}\right\}$: then to **Cancel, Annihilate** or **Decreate** an Obligation may be denoted by $-\left\{\begin{matrix}+\ £100\\-\ £100\end{matrix}\right\}$

Let us now observe the effect of the Negative Sign on each of the parties to the Obligation

The Creditor's Property becomes $-(+£100)$, or $-£100$: that is, he has *lost* £100

The Debtor's Property becomes $-(-£100)$: but $-(-£100) = +£100$: that is, the Debtor has **gained** £100: exactly as explained above

Which shows that to **Cancel** *a* **Debt** is exactly equivalent to making a **Gift** *of* **Money**

Second Method.—The Creditor's *Right of action* being a Chattel, Goods, or a Commodity, may be the subject of a Donation, or Gift, exactly like any other Chattel. He may present it as a Gift to any one he pleases; and to the Debtor himself as well as to any one else. Then the Debtor's Property will be $+£100 - £100$

These two Quantities cancel each other like $+a$ and $-a$ on the same side of an equation. They vanish together: the Right is not in abeyance: it is absolutely extinguished. The $+£100$ ceases to exist as well as the $-£100$: and thus the Obligation is absolutely extinguished

When + £100 *Cancels* — £100 : *and when it does not*

91. It must be carefully observed that $+£100$ and $-£100$

in the same person do not always cancel each other in Economics: it is only in the case where the person has the *Right to demand* from *himself*, and the *Duty to pay* to himself, that the two Quantities vanish, and the Contract or Obligation is extinguished. Because a person's Property may be represented by + £100 — £100: and therefore for practical purposes be equal to 0: and yet these two Quantities do not cancel each other

Suppose that a person has £100 in Banker's notes, and at the same time owes some one else £100. Then his Property will be + £100 — £100, and in substance = 0; but in this case the + £100 and the — £100 do not cancel each other: and the £100 is not extinguished as an Economic Quantity: because the Debtor may leave his Debt unpaid, and pay away the notes in commerce

Suppose that two bankers each hold £100 of the other's Notes: then the Property of each banker is £100 — £100, and in substance equals 0. But in this case the + £100 and the — £100 do not cancel each other: and there are £200 of Economic Quantities in existence: and each banker may pay away the notes of the other

If, however, they exchange Notes, then each banker has the *Right to demand* £100 from himself, and the *Duty to pay* £100 to himself: and then each of the Obligations is simultaneously extinguished: because each has performed his Duty of paying the other by Releasing him from a Debt

The reason of this is obvious: because if a person possesses a Right of action against A., that is no fulfilment of his *Duty to pay* B.

Hence, it is only when the Right and the Duty emanate from the same source, and are again revested in the same source from which they emanated, that they are cancelled, and the Obligation extinguished

On Payment *in* Money

92. The preceding considerations will explain how a Payment in Money extinguishes a Debt: which few persons have ever thought of

Suppose that a person possesses £100 in money and owes

£30 : then his Property will be £100 — £30 : *i.e.*, he possesses £100, but coupled with the *Duty to pay* £30 at some given time

His Creditor's *Right to demand* is (+ £30)

When the Debtor pays the Debt in Money, it may be considered to take effect in two ways—

1. The Debtor gives the Creditor £30 in Money: and the Creditor gives him in exchange for it the *Right of action*. The Debtor now possesses the *Right to demand* £30 from himself, and the *Duty to pay* £30 to himself : thus the + £30 and the — £30 cancel each other : the Obligation is extinguished : and the Debtor's Property is now £70

2. The (— £30) denotes the Debtor's Duty to pay : and when he has paid, the Duty is performed and extinguished : the Creditor's Right to receive the £30 is also satisfied and extinguished : and thus both Quantities are extinguished, and the Obligation is extinguished

The transaction is therefore seen to be an Exchange or Sale

Thus the Obligation or Contract was originally created by the Sale or Loan of the Mutuum : and it is annihilated by the Sale or Exchange called Payment. Hence the Obligation is created by one Exchange and is annihilated by another

On **Renewal** *and* **Transfer** : *or* **Novatio**

93. The term *Novatio* in Roman Law meant substituting a **new** Obligation for the former one : so that the former one was extinguished. It was also called *Transfusio* or *Translatio*

But this took place in two ways—

1. When the Debtor himself gave the Creditor a new Obligation, which he accepted in lieu and substitution of the previous one, which was thereby extinguished. The new Obligation is the Price or Payment of the old one. This is called by us **Renewal**

As, for example, when a Banker agrees to renew a Promissory Note of his Customer : the new Note is Payment of, and extinguishes, the former one

Or when a Creditor has a Debt owing to him payable on demand : and he agrees to take a Promissory Note from his

Debtor payable in three months : the Promissory Note is Payment of, and extinguishes, the Debt payable on Demand : and no new Debt arises until the time comes for payment of the Note

2. When the Debtor transferred to his Creditor an Obligation, or Debt, due to him from some one else. If the Creditor agreed to receive this new Debt in payment of his Debt, he thereby discharged his own Debtor, and agreed to receive his Debtor's Debtor as his new Debtor. But he might retain his original Debtor as a Surety in case of failure of Payment by the new Debtor

A familiar instance of this is where a Debtor pays his Creditor in Bank Notes. If the Creditor accepts these Notes in payment of his Debt, the Debtor is discharged, and the Creditor agrees to take the Banker as his new Debtor

So also when a Debtor gives his Creditor a Bill of Exchange on another person

Or if the Creditor and Debtor are both customers of the same bank, the Debtor may give his Creditor a cheque on his account ; the Creditor pays in the cheque to his own account ; and the banker transfers the Credit from one account to the other. The banker is now freed from his Debt to the Transferor, and becomes Debtor to the Transferee

94. When the new Debtor expressly consented to the transfer of the Debt he was said to be **Delegatus :** and the Transfer of the Credit was termed **Delegatio**

This *Novatio* or *Delegatio* was equivalent to a Payment in money

The Digest says—" Verbum exactæ pecuniæ non solum ad Solutionem referendum est sed etiam ad Delegationem "

So the Basilica—" τὸ ῥῆμα τῶν ἀπαιτηθέντων χρημάτων οὐ μόνον εἰς καταβολὴν ἀναφέρεσθαι δεῖ, ἀλλὰ καὶ ἐς ἔκταξιν "

" *The word Payment includes not only Payment in Money, but also the* **Transfer** *of a* **Credit** "

So the Digest—" Solvit et qui reum Delegat "

" *He pays who Transfers another Debtor* "

So—" Delegare est vice suâ alium reum dare Creditori, vel cui jusserit "

"*To Delegate is to give another Debtor instead of one's self to the Creditor or to whomsoever he pleases*"

In modern commerce this kind of *Novatio* is also called an "**Exchange**" when effected by persons living in different places. A person living in one place may be Creditor to one person and Debtor to another person in some other place. If these two debts were settled in money, they would evidently require two transmissions at some expense and trouble. The matter may evidently be settled by the Debtor living in one place giving his Creditor living in the other an Order on his Debtor living in the same place: and thus both Debts will be discharged by the simple expedient of one person paying the money to his neighbour in the same place. It is just like a person paying a Debt by giving his Creditor a Cheque on his banker. The mass of reciprocal transactions of this nature which take place between different countries is called the Foreign Exchanges: a subject we shall have to investigate fully in a future chapter

On Set Off: *or* Compensation

95. If two persons are mutually indebted, each may claim that the Debt he has against the other shall be taken in payment of the Debt he owes

If the mutual Debts are equal, each is Payment in full of the other: they are **weighed** and set off against each other. This is called **Set Off** or **Compensation**

If one Debt is greater than the other, equal amounts **Compensate** each other, and the Balance only is paid in Money

96. Simple as this principle seems, it took a very long time both in Roman and English Law to arrive at it

In early Roman Law Compensation, or Set Off, was not allowed as a matter of right. Each Creditor had a right of action against the other

Afterwards, in the time of Gaius, Compensation was not held to be Payment; but the Prætor, or Equity Judge, allowed a counter debt to be pleaded as a defence to an action of Debt

Marcus Aurelius allowed it as a matter of right

Bankers, however, were always obliged to allow set off for counter claims, and sue only for the balance. In other cases the Judge was allowed at his own discretion to allow cross claims

97. The principle of the early Common Law of England was exactly the same as the early law of Rome. If two persons were mutually indebted, each must bring his action against the other. Equity, however, always allowed Set Off

In many cases, however, the want of such a legal principle led to great injustice, and an Act, Stat. 4 Anne, c. 17, allowed set off in cases of bankruptcy : and this was extended by statutes 2 Geo. II., c. 22, s. 12, and 8 Geo. II., c. 24, s. 4. Now by the Supreme Court of Judicature Act, where the rules of Equity are adopted in full, Compensation is a complete answer in all cases : hence if two persons are mutually indebted, each Debt is Legal Tender, or Money, for the Payment of the other

Both Debts, however, must have actually accrued due at the time of Set off or Compensation

As, for instance, if a banker holds the acceptance of his customer not yet due, he cannot retain a balance on his current account to meet it

So if two merchants hold each other's acceptances, one of which is due and the other not due, they cannot be set off against each other

98. The following are examples of Set off or Compensation

1. Suppose two bankers issue Notes, and each has got possession of an equal amount of the other's Notes, say £100. Then each has a *Right of action* (+ £100) against the other : and at the same time a *Duty to pay* (— £100) his own Notes

While the Notes of each are in the hands of other, there are of course £200 of Rights of action, Credits, or Debts, or Economic Quantities in existence. But when they meet to adjust the Payment, each tenders to the other the Rights of action he has against him in payment of the Debt due from himself. By this operation each has performed his Duty, and paid his own Debt by Releasing the other from his Debt. Each

banker has now the *Right to demand* from himself and the *Duty to pay* himself. Thus both Contracts or Obligations are extinguished ; and the £200 cease to exist as Economic Quantities

2. Suppose a banker holds a merchant's acceptance for £100, which has become due : and suppose the merchant holds £100 of the banker's notes. When the banker demands payment of the merchant's acceptance, the merchant tenders him his own notes in payment : and, as before, both Obligations are extinguished

3. Suppose two merchants have issued acceptances of equal amounts, due the same day : and that the acceptance of each merchant comes into the hands of the other. On the day of payment, each tenders to the other his own acceptance in payment of the Debt due from himself. And so both Obligations are extinguished. We shall give a very striking instance of this in the next chapter

4. Suppose a banker holds the acceptance, or discounts the note of a customer. On the day the bill or note falls due, he simply writes off from his customer's account the amount of the bill or note : and thus the mutual Debts are extinguished as before

Thus we see what a prodigious extension of Credit and Commerce is effected by the system of Payment without the use of Money : in fact, Money is never used now in commerce except to pay the balances which arise from the unequal exchanges of Debts

We have now developed the complete Theory of Credit : and explained the great Juridical and Mathematical principles it is based upon. It is shown that the principles of commerce are capable of the strictest scientific demonstration : an example of Voltaire's aphorism that "All Nature is nothing but Mathematics"

In the next two chapters we shall show how the great scientific principles of Credit are exemplified in the mechanism of Commerce and the great business of **Banking**

On the **Quantity** *of* **Credit** *compared to the* **Quantity** *of* **Money**

99. Credit then being distinctly shown to be a mass of independent exchangeable Property, it is of considerable interest to discover the Ratio which Credit and Money bear to each other in modern commerce. The difficulties which prevent private inquiries from arriving at any reliable result are very great: and the opportunities which are presented by Parliamentary inquiries into Commercial Crises are very rarely made use of for any but their immediate purpose. In the Report, however, of the Committee of the House of Commons on the crisis of 1857, there is given an interesting statement by Mr. Slater. Having analysed the operations of his house for 1856, he gave in the following table as showing the proportion in which each million of payments and receipts were made in Money and various forms of Credit

RECEIPTS

	£	£
In Bankers' drafts, and Mercantile Bills payable after date	533,596	
Cheques payable on demand	357,715	
Country Bankers' Notes	9,627	
		900,938
Bank of England Notes	68,554	
Gold	28,089	
Silver and Copper	1,486	
Post Office Orders	933	
		99,062
		£1,000,000

PAYMENTS

	£	£
By Bills of Exchange	302,674	
Cheques on London Bankers	663,672	
		966,346
Bank of England Notes	22,743	
Gold	9,427	
Silver and Copper	1,484	
		33,654
		£1,000,000

Here it is shown that in this great house, which may be reasonably supposed to represent commerce in general, Gold did not enter into their operations to even so much as 2 per cent. And this may furnish a clue by which we may obtain a rough estimate of the amount of Credit. It is usually estimated that the Gold in the country is somewhat about £120,000,000 ; and if there is 50 times as much Credit in the country as the above figures would seem to indicate, it would appear that there must be somewhat about £6,000,000,000 in Credit in the country

This of course is only a rough approximate estimate, but it is sufficient to show the enormous magnitude of this species of Property, and its supreme importance in modern times. This Credit produces exactly the same effects, and affects Prices exactly as so much Gold : and it is through the excessive creation of this kind of Property that all Commercial Crises are brought about

Moreover, when we grasp the conception, that all the mass of Credit is so much exchangeable Property which can be bought and sold like any material chattels, it compels a thorough re-investigation of all the Fundamental Conceptions of Economics : and shows how erroneous the doctrine is that **Labour** and **Materiality** are necessary to **Value**

Two Branches of the System of Credit

100. Having now developed the complete Theory of Credit, that is, explained how Credits, or Debts, are created, exchanged, or sold, and extinguished, we shall in the two following chapters exhibit the actual mechanism of the great System of Credit

The system of Credit is divided into two great branches—Commercial Credit and Banking Credit. In the first, merchants buy Commodities by means of Credit or Debts payable at a certain time after date : and these Debts may circulate in commerce and effect exchanges exactly like Money, until they are paid off and extinguished. And Commercial Debts are always extinguished when they become due

The second branch is where bankers buy these Commercial Debts by creating Credits, or Debts of their own, payable on demand. Banking Credits are created payable on demand, and

must be paid if demanded. But they are not intended to be paid and extinguished. On the contrary, they are created with the hope and expectation that they will not be demanded and extinguished: but continue in existence and do duty as Money. There is no necessity that Banking Credit should ever be extinguished. It may be transferred from one account to another in the same bank, and from one bank to another to the end of time. It is quite possible that much of the Banking Credit which exists at the present day may have been originally created by the very first banks founded in this country: and there is no necessary reason why it should not continue to the end of time. Money is a very expensive machine to purchase and keep up: but Banking Credits cost nothing to create, and they may endure for ever

These two departments of Credit are perfectly distinct, are governed by different principles, and are in some respects antagonistic to each other. The same person should never carry on both: that is, great bankers should not be merchants, and great merchants should not be bankers: for the duty of a banker is often contrary to the interest of a merchant

CHAPTER V

ON COMMERCIAL CREDIT

1. Having in the preceding chapter investigated the Juridical Theory of the Creation, Transfer, and Extinction of the Merchandise, or Economic Quantities, termed **Credit** or **Debts,** we have now to exhibit its practical application in Commerce in the two following chapters. In this chapter we shall explain the mechanism of Commercial Credit; *i.e.*, when Credit is used to transfer commodities or to produce them

On the System of Credit based upon simultaneous **Transfers** *of Commodities*

2. Goods or commodities in the ordinary course of business pass through the following hands—

1. The grower or foreign importer
2. The manufacturer
3. The wholesale dealer
4. The retail dealer
5. The customer or consumer

To the first four of these persons the Goods are **Capital:** because they grow or obtain them, manufacture or deal in them, for the sake of profit: the fifth buys them for the sake of use and enjoyment. The price the ultimate consumer pays for them must evidently be sufficient to reimburse the original expenses of production

Now, leaving out of consideration for the present how the importer of the goods obtained them, which concerns the foreign trade of the country, which we do not touch upon here—if he sells the goods for ready money to the wholesale Dealer, he can of course immediately import or produce a further supply of goods in the room of those he has disposed of. In a similar

way, the wholesale dealer sells to the retail dealer, and if he were paid in ready money he might immediately effect further purchases from the merchant, to supply the place of the goods he had sold. So, also, if the retail dealer were always paid in ready money by his customer, he might replace the part of his stock that was sold; and so, if everybody had always ready money at command, the stream of Circulation or Production might go on uninterruptedly, as fast as Consumption or Demand might allow

This, however, is not the case. Few or no persons have always ready money at command for what they require. Very few traders can commence with enough ready money to pay for all their purchases; and if the stream of Circulation, or Production, were to stop until the Consumers had paid for the goods in money, it would be vastly diminished

Now, if the wholesale dealer sees that there is a certain demand for goods, if he has no money, and the merchant will not sell the goods to him except for ready money, he cannot purchase them—there will be no Circulation, and no Profits. But suppose that the merchant has confidence in the wholesale dealer's character and integrity, he sells the goods to the wholesale dealer on Credit; that is, he sells him the goods, and instead of actual money he takes his Promise to pay three months after date. That is, he sells the goods in exchange for a **Credit** or a **Debt,** instead of for money. Now this case is a sale exactly as if the goods were sold for Money. The merchant cedes the property in the goods to the wholesale dealer exactly the same in the one case as in the other. Hence we see that Credit has caused exactly the same Circulation or Production as Money does. This Debt so created may be recorded in two ways. (1) Either as a simple entry, or Book Debt in the merchant's books. (2) It may be recorded in a Bill of Exchange. But it is quite clear that the Property is absolutely the same in whichever form it is; though one form may have more conveniences than the other

In a similar manner, the wholesale dealer may sell the goods on Credit to the retail dealer, and the Debts may also be recorded in two different ways, either as Book Debts or as Bills of Exchange. As in the former cases, the same Circulation or Production has been caused by Credit as by Money

Lastly, the retail dealer may sell the goods on Credit to the Consumer, or Customer: and this debt may also be recorded in two forms, either as a Book Debt, or as a Bill of Exchange. In this case the Debt most usually rests as a simple Book Debt; it is very seldom in the form of a Bill of Exchange. But in this case, as in the preceding one, Credit has had precisely the same effect as Money in circulating goods. Hence we see that Credit has had precisely the same effect as Money in Circulating the goods from the merchant to the Customer

Moreover, at each transfer of the goods from one holder to another, it has been necessary to create a fresh Debt; thereby exemplifying the distinction we have already pointed out between **Credit** and **Bills** *of* **Lading**; because if the goods had passed through so many transfers, the same Bill of Lading would always have accompanied them

Now, the Debt for which the Merchant sold the goods to the wholesale dealer, is no doubt valuable Property to him, because he knows it will be paid in time. Similarly, the Debts for which the other parties sold the goods are also valuable Property to them. Credit, even so far as this, would be of great assistance to Production; and the vast amount of it generated in this way would be valuable Property to its Owners. But in this state it would be of no further use to its owners. It might, therefore, be aptly compared to so much dead stock

3. It appears from Sir Francis Child, that before the institution of Banks in this country commercial bills were not transferable; as it was supposed that it was contrary to the Common Law. He was very desirous of introducing the Dutch custom, when every person who bought goods on Credit was obliged to give a Note of hand, which the seller of the goods could put into circulation like so much money, and make use of in further purchases

The next step, therefore, is to make this dead stock negotiable or exchangeable; *i.e.*, to make the Debts themselves saleable commodities; to sell them either for ready money, or for other Debts for more convenient amounts, and immediately exchangeable for money on Demand, and therefore equivalent to money

There are two classes of traders whose especial business is to buy these commercial Debts, and so to give activity and circulation to this enormous mass of valuable Property, and convert it from dead stock into further Productive Power

The first class of these traders are called **Bill Discounters;** *i.e.*, buyers of Debts; they buy these debts with money. The second class are called **Bankers**; they buy these commercial Debts by creating other Debts payable on demand

The general practice of selling these Commercial Debts seems to have arisen when the London goldsmiths began the trade of banking. Having large sums deposited with them, for which they agreed to pay interest, they were obliged to trade with them to obtain the profit out of which they had to pay the interest

The merchant having drawn a Bill on the wholesale dealer, sells it to the banker, and receives in exchange for it a Credit termed a **Deposit,** payable on demand, which has all the advantages of ready money. Thus, the banker buys one Debt, which is a valuable Property, by creating another Debt, which is also valuable Property; and it must be carefully observed that these two operations are not a cancelment of Debts, as many suppose, but an **Exchange** of valuable Properties

In a similar way the other parties, manufacturers and wholesale dealers, have Debts which they also sell to their bankers for Credit, or Deposits, payable on demand, and thus the whole mass of commercial Debts is converted into Productive Capital. The different parties have now the full command of ready money for any purposes they require; and can continue the stream of production without interruption; and as their bills fall due they have only to give an order on their banker

Credit used by Foreign Merchants

4. The supposed non-alienability of Debts in English Common Law impeded the circulation of Bills in this country for a long time; but there was no such restraint on the Continent, where Debts were as saleable as any other property

This was strikingly exhibited on the Continent before Banks undertook the discounting of Mercantile Bills; and the power of

Credit, or Purchasing Power, independent of, and over and above money, was strikingly exemplified

At several great centres of Commerce, Antwerp, Lyons, Brussels, and many others, there were held great fairs at certain periods. The Continental merchants, instead of making their bills payable at their own houses, where they must have kept cash to meet them, made them payable only at these fairs. In the meantime their bills circulated throughout the country like money, and got covered with indorsements. On a certain day of the fair the merchants met and adjusted their mutual claims, and if their claims were equal, they were of course balanced and paid by being exchanged against one another, by the principle of *Compensation*. By this means an enormous Commerce was carried on without any specie. Boisguillebert, one of the morning stars of modern Economic Science, says that at the fair of Lyons, transactions to the amount of 80,000,000 were settled without the use of a single coin

Exaggerated Ideas of the Security of Real Bills

5. The above are the fewest number of hands that goods in the ordinary course of business pass through, and it is clear that on their passage from the manufacturer or importer to the customer, they will give rise to at least two bills, if not to three. They are all regular business bills ; they originate from real transactions ; they are what are called **Real** or **Value** Bills : and they are what arise out of the regular and legitimate course of business, and they are the great staple of what bankers purchase. It is a very prevalent opinion even among men of business that Real bills are essentially safe, because they are based upon real transactions, and always *represent* property. But the foregoing considerations will dispel much of the security supposed to reside in real bills on that account ; because we have seen that in the most legitimate course of business, there will generally be two bills afloat originating out of the transfers of any given goods, so that in the ordinary way there will be at least twice as many bills afloat as there are goods to which they refer

The above operations are only what arise in the ordinary course of business ; sometimes, however, goods may change hands

much more frequently, and at every transfer a bill may be created. In times of speculation transfers are often much more numerous, and all the bills created on these transfers are technically Real Bills, but it is evidently a delusion to suppose that there is any security in them on that account. The whole misconception arises from an error in the meaning of the word "*represent.*" A Bill of Lading does, as we have said above, *represent* goods ; and whoever has the Bill of Lading has the Property in some specified goods. But a Bill of Exchange does not **represent** any goods at all. It represents nothing but **Debt** ; not even any specified money. It is created as a substitute for money to transfer goods, but it does not represent the goods any more than Money represents goods. This was long ago pointed out by Thornton in his *Essay on Paper Credit.* "In order to justify the supposition that a real bill, as it is called, represents actual property, there ought to be some power in the bill holder to prevent the property which the bill represents from being turned to other purposes than that of paying the bill in question. No such power exists ; neither the man who holds the bill nor the man who discounts it has any property in the specific goods for which it was given." This is perfectly manifest ; it is contrary both to the law and nature of Bills that they should be tied down to any specific goods. The real security of the Bill consists in the general ability of the parties to meet their engagements, and not in any specific goods it is supposed to represent

On Accommodation Bills

6. In the case we examined of a bank buying the bill of A. upon B., the transaction was already effected upon which it was founded. A. had sold the goods to B. for which he was entitled to be paid on a future day, before he drew the bill on him ; and originally all Bills of Exchange represented previously existing Debts, and they bore on their face the words " for value received " to testify the fact. Consequently, when A. discounts the bill, founded upon that transaction with the bank, it must be carefully observed that he is simply selling a Debt which is his existing property. And so long as Bills of Exchange are restricted to representing *past* transactions, their negotiation is not borrowing

money as is commonly understood. But the sharpness of traders discovered that they might be applied to *future* transactions.

In the case of a past transaction, A. simply sells his debt to the bank and obtains the money to which he is entitled, and B. pays to the bank the money he would have otherwise paid to A. at the expiration of the Credit. But B. may lend his name to A. without any real transaction having taken place between them. Then, if B. accepts a bill to A., A. may discount that bill with the bank, and with the proceeds he may purchase goods, sell them to C. and take C.'s bill in payment of them, which would then be a real transaction. Now, this not being based on any previous transaction, is in itself a completely new transaction, and such a Bill is called an **Accommodation Bill**

The practical effect of this transaction is that B. stands security to the Bank for the money advanced to A.; and there is nothing in the nature of such a transaction worse than for one man to stand security for another in any commercial transaction. A great deal has been said and written about the difference between Real and Accommodation Bills ; and while no terms of admiration are too strong for the first, no terms of vituperation are too severe for the latter. Thus Mr. Bell says—"The difference between a genuine commercial bill and an accommodation bill is something similar to the difference between a genuine coin and a counterfeit one:" as if the fact of negotiating an Accommodation Bill were in itself one of moral turpitude. It is also generally assumed that Real Bills possess some sort of additional security because it is supposed that there is property to represent them. We have already pointed out the error of this idea. In fact, both Real and Accommodation Bills have exactly the same degree of security—they constitute a general charge upon the whole estate of the obligants upon them. The objection to Accommodation Bills, therefore, on this ground is futile

The essential distinction between Real and Accommodation Bills, is that one represents *past*, and the other *future* transactions. In a Real Bill goods *have been* purchased which are to meet the bill : in an Accommodation Bill goods *are to be* purchased which are to meet the bill. But this is no ground for preference of one over the other. A transaction which *has been done* may be just as wild, foolish, and absurd as one that *has to be* done. The

intention of engaging in any mercantile transaction is that the result should repay the outlay with profit. There is no other test of its propriety but this in a mercantile sense

The common objections against Accommodation Bills are futile and wide of the mark. Whether a Bill be a good and a safe one, has no reference to whether it represents a *Past* or a *Future* transaction, but whether it be a safe and judicious one in itself, and the parties to it respectable and of sufficient means to meet their liabilities

The true objections to Accommodation Paper are of a different nature. As Real Bills only arise out of the transfers of property, the number of them must be limited in the very nature of things. However bad and worthless they may be individually, they cannot be multiplied beyond a certain extent. There is therefore a limit to the calamities they cause. But Accommodation Bills are means devised to extract funds from bankers to speculate with; and consequently these speculations may be continued as long as these funds can be extracted

This system of Accommodation Paper of different descriptions is one of immense importance in modern commerce, and has produced great calamities, which are so intimately interwoven with banking, that we shall defer further consideration of it till the next chapter, which treats of the operations of Banking

Distinction between Bills of Exchange and Bills of Lading

7. The distinction between Bills of Exchange which are **Credit**, and Bills of Lading which are **Documents** of **Title**, is of so subtle a nature, and of such momentous consequence, that it will be well to illustrate it further. It has been seen that any amount of Property may, by repeated transfers, give rise to any number of Bills of Exchange, which are all *bonâ fide*; just for the same reason that every transfer would require a quantity of Money equal to the Property to transfer it. Even supposing that the price remained the same at each transfer, it would require 20 times £20 to circulate goods to the value of £20 twenty times. But also £20 by twenty transfers may circulate goods to the value of twenty times £20. So a Bill of Exchange may represent the transfers of many times the value of goods ex-

pressed on its face. This is the case whenever a Bill is indorsed or passed away for value : and the Bill represents as many additional values expressed on the face of it as there are indorsements

Thus, suppose a real transaction between A. and B. : A draws upon B. : that represents *one* transaction, or transfer of goods. A. then buys something from C. : and in payment of these goods C. might draw upon A. : in a similar way as A. drew upon B. But instead of this A. may pay for the goods bought from C. by selling to him the Bill he drew upon B. : at the same time indorsing it. The Bill has now effected *two* transfers of goods. In a similar way C. may buy goods from D., and pay for them by indorsing over the Bill he received from A. The bill has then two indorsements and represents *three* transfers of goods. In a similar way it may pass through any number of hands and effect any number of exchanges. When C. indorsed over the bill to D., he merely sold him the Debt which A. had previously sold to him. Now that may be done either by drawing a fresh bill on B., cancelling the first, or simply indorsing over the bill he received from A. Hence every indorsement is equivalent to a fresh drawing. But if he draws a fresh bill on B., it will represent nothing but B.'s debt to him : whereas if he indorses over the bill he received from A., it will represent B.'s debt to A.; A.'s debt to C.; and C.'s debt to D.: and consequently it will be much more desirable for D. to receive a bill which represents the sum of so many previous transactions, and for the payment of which so many parties are bound to the whole extent of their estates. About sixty years ago the Circulating Medium of Lancashire consisted almost exclusively of Bills of Exchange, which had sometimes as many as 150 indorsement on them before they came to maturity

This also shows that no true estimate of the effect of bills in circulation can be formed from the returns to the Stamp Office, as has sometimes been attempted to be done, as every indorsement is in effect a new bill. So that the useful effect of a bill is indicated by the number of indorsements on it, supposing that every transfer is accompanied by an indorsement, which is not always the case

But indorsements on a Bill of Lading have a different mean-

ing : because a Bill of Lading is bound down to the goods, and accompanies them however many the transfers may be. Hence ten indorsements on a Bill of Lading denote that the *same* goods have been transferred *ten* times : ten indorsements on a Bill of Exchange denote that *eleven* times the amount of goods have been transferred *once*

On Credit created for the purpose of being applied to the **Formation** *of* **New** *Products*

8. The operations of Credit we have considered were for the purpose of transferring commodities, either which had been purchased, or which were to be purchased : but which might be supposed to be already in existence

But since Credit is, as we have seen, Exchangeable Property, and a substitute for Money, it is clear that it may be applied equally as well as Money, to bring *new* products into existence. The limits of Credit in this case are exactly the same as in the former case—namely, the power of the proceeds of the work to redeem the Credit

As an example of such a creation or formation of a product, we may take such a case as this—

Suppose that the Corporation of a town wishes to build a Market hall, but has not the ready cash to buy the materials, and pay the builder's and workmen's wages. It may be a matter of certainty that if the Market hall were once built, the stalls in it would be taken up, and the rents received would liquidate the Debt incurred in erecting it. But as the workmen cannot wait until that time, but require immediate cash to purchase necessaries, it is clear that unless there is some method of providing ready payment, they cannot be employed. In such a case the Corporation might borrow money on their own bonds, repayable at a future period. These bonds would be the creation of Property. They are the Right to demand a future payment : and are valuable exchangeable Property, which may be bought and sold like anything else

But the Corporation need not borrow money. They might create their own Obligations, payable after a certain time, small enough to be received in payment of wages, and be readily

received by the dealers in the town, and perform all the functions of a Currency, and be equivalent to Money. They would be equally efficacious in *producing* or forming the Market hall as so much Money. And the Market hall itself would be Capital, because it would produce a profit. As the stalls were let and the rents received for them, the bonds might be redeemed, and the Debt cleared off. It is said that several Market halls have been built by adopting this plan

Credit, in fact, being Purchasing Power, may be used to purchase Labour as well as Commodities: and that Labour may be employed in *forming* or producing things as well as in *circulating* them

In the next chapter we shall show that Companies have been formed on the Continent for the express purpose of promoting improvements in agriculture on this principle, and have been the main cause of the prosperity of these countries

But where institutions are very solid and enjoy high Credit, they may issue Notes payable on demand for the express purpose of such operations. The immense improvements in agriculture and all public works in Scotland have been effected by the Scotch Banks issuing £1 notes: and such is their solidity that their £1 notes are as readily received in Scotland as money, and produce exactly the same effects as so much money

In all cases whatever **Credit** is merely the **Present Value** *of the future payment*, and if it is profitable to advance Money for any operation to be replaced with a profit by the result of the operation, it is of course equally profitable to create an equal amount of Credit, which will be redeemed with a profit by the result of the operation

Thus Money and Credit have exactly the same effects on the Production of commodities, which by the unanimous consent of Economists includes both their formation and their transfer: and therefore **Credit** is **Productive Capital** exactly in the same way and in the same sense as Money is

CHAPTER VI

THE THEORY OF BANKING

1. We have now to show how the Juridical Theory of Credit, which has been fully explained in the preceding chapters, is practically exemplified in the great business of Banking

The subject of Banking is often supposed to be peculiarly mysterious and difficult : but the sole difficulty in the case consists in understanding and retaining a firm grasp of the conception that a **Credit** is the **Present Right,** or the **Present Value** of a **Future Payment :** that this Right is not a Right or Title to any specific Money : but is only an abstract Right against a **Person,** to compel him to pay a sum of money at some agreed upon time

Moreover, that this Right of action may be bought and sold, or exchanged, like any material chattel : and for this reason it is termed *Pecunia*, *Res*, *Bona*, *Merx*, in Roman Law : χρῆμα, πράγματα, οἶκος, οὐσία, ἀφορμή, ὕπαρχον, in Greek Law : Goods and Chattels, Merchandise, a Vendible or Marketable Commodity, or an article of Commerce, in English Law : and is included under the title of Circulating Capital by Economists

So, also, this Right of action has **Value** for exactly the same reason that any other Economic Quantity has Value ; because it will be exchanged for Money at the agreed upon time

And as these Credits, or Debts, are themselves Saleable Commodities, Goods and Chattels, or Merchandise, they can be sold or exchanged against each other, just in the same way as material chattels are sold or exchanged for each other

The business of Banking consists exclusively in buying and selling Money, and these Goods and Chattels, Merchandise, or Commodities termed Credits or Debts

As a Credit, or Debt, is the Present Right, or Present Value of a Future Profit : so every Future Profit, or Payment, from

whatever source arising, has a Present Value which may be bought and sold

It has been shown that the Land is an Economic Quantity, producing a continuous series of Profits: and also that every merchant is also an Economic Quantity producing Profits

The profitable business of Banking consists in buying up, or **Discounting,** as it is technically termed, the Present Values of these Future Profits

Banks which carry on business for Profit are divided into two great classes: those whose business it is to discount **Mercantile** Profits, and those whose business it is to discount **Agricultural** Profits

In this chapter we shall fully explain the Theory and the Mechanism of both of these kinds of Banks

On the Meaning of the word **Bank**

2. Before we proceed to explain the Mechanism and Effects of Banking, we must ascertain the true meaning of the word Bank; because great misconception prevails respecting it

If we take up the most common works on Banking we find it stated—

1. That the word Bank comes from the Italian word *Banco*, a bench: because it is alleged that the Italian money dealers, or money changers, kept a bench, on which their money was piled; whence they are said to have been called *Banchieri*

2. That the business of a banker consists in acting as an intermediate agent between persons who want to lend and those who want to borrow

3. That the Profits of a banker consist in the difference between the interest he pays for the money he borrows, and the interest he charges for the money he lends

This description, however, of a bank, and the nature of banking business, is entirely erroneous: for the Italian money changers, as such, were never called *Banchieri* in the middle ages: and their places of business were never called *banchi.* The money dealers were called *Cambiatores*, *Cambitores*, *Campsores*, *Speciarii*, *Argentarii*, *Nummularii*, *Trapezitæ*, *Danistæ*, *Collybistæ*, and *Mutuatores:* and their places of business were called *Casane*

Muratori, after noticing the absurd derivation of the word Bank from *abacus*, says—"To me, on the contrary, the word seems to have come from the German word **Banck,** which is a very ancient word in that language" : and, he says, that the word *banco* was first used as a store in the town of Brescia

Ducange also says—"**Bank** is, therefore, of Franco-German or Saxon origin : no other is to be sought for"

There is no doubt whatever that these learned authors are right : and the word **Bank** originated in this way—

The Roman State made it a cardinal maxim of their policy not to carry on more than one war at a time. In 1171, the City of Venice was at war both with the Empires of the East and of the West. Its finances were in a state of great disorder ; and the Great Council levied a forced loan of one per cent. on the property of all the citizens, and promised them interest at five per cent. Commissioners were appointed to manage the loan, who were called the *Camera degli Imprestiti.* Such a loan has several names in Italian ; such as *Compera, Mutuo,* &c. : but the most usual is **Monte,** a joint stock fund. This first loan was called the *Monte Vecchio* — the old loan : subsequently, two other similar loans were contracted, and called *Monte Nuovo* and *Monte Nuovissimo.* In exchange for the money, the citizens received **Stock Certificates,** or **Credits,** which they might transfer to any one else : and the Commissioners kept an office for the transfer of the stock, and the payment of the dividends

At this time the Germans were masters of a great part of Italy : and the German word **Banck** came to be used as synonymous with Monte : and was Italianised into **Banco** : and the loans, or public debts, were called indifferently, **Monti,** or **Banchi**

Thus an English writer, Benbrigge, in 1646, speaks of the "three Bankes" at Venice ; meaning the three public loans, or *Monti*

That the word Banco, in Italian, means a Public Debt, might be proved by numberless quotations

In an Italian dictionary, published in 1659, it says—"**Monte,** a standing **Bank,** or **Mount** of money, as they have in divers cities of Italy"

So, a recent Italian writer, Cibrario, says—"Regarding the

Theory of Credit, which I have said was invented by the Italian cities, it is known that the first **Bank,** or **Public Debt** (il primo **Banco** o **Debito Pubblico**), was erected at Venice, in 1171. In the thirteenth century, paper money is mentioned at Milan: the credit was paid off. A **Monte,** or **Public Debt** (un **Monte** o **Debito Pubblico**), was founded at Florence, in 1336. . . . .

"At Genoa, during the wars of the fourteenth century, the **Bank** of St. George was established, formed of the Creditors of the State"

These, as well as numberless examples which might be cited, show that **Monte** and **Banco** are synonymous; and mean a Heap or Mount, or a Joint Stock Fund formed by the contributions of a number of persons

The Bank of Venice was, in reality, the origin of the Funding system, or the system of Public Debts: it did not for many centuries do any of what we call banking business

3. And this was the meaning of the word Bank when it was first introduced into English

Thus Bacon says—"Let it be no **Bank,** or **Common Stock:** but every man be master of his own money"

So Gerard Malynes, in 1622, speaks of **Mons Pietatis,** or **Banke** of **Charity:** and says, that in Italy there "are Montes Pietatis, that is, **Mounts** or **Bankes** of Charity"

So Benbrigge, in his *Usura Accommodata*, published in 1646, says—"For their rescue may be collected **Mons** *pietatis sive charitatis*, or **Banke** of piety or charity, as they of Trent fitly call it." Again—"For borrowers in trade, for their supply as their occasion shall require, may be erected **Mons** *Negotiationis*, or **Banke** *of Trade*." He also quotes from Tolet, who speaks of two kinds of Banks, namely, **Mons** *Fidei*, or Banke of Truste, which Clement XII. instituted at Rome: he that put his money into this bank was never to take it out again, and received seven per cent.: and of **Mons** *Recuperationis*, or **Banke** of Recovery, in which the interest was twelve per cent. These were simply perpetual and terminable annuities, where the higher interest of the latter was, in fact, repayment of the principal

Ben Jonson, in his *Volpone*, the scene of which is laid in Venice, says—

"I make no Profit in the **Public Bank**"

meaning, I do not dabble in the Venetian Funds

In the time of Cromwell some proposals were made for erecting Public Banks. Samuel Lambe, a London merchant, says, in 1658 —"A **Bank** is a certain number of sufficient men of estates and credit joined together in Joint Stock: being, as it were, the general cash keepers, or treasurers of that place where they are settled, letting out *imaginary money* (*i.e.*, **Credit**) at interest at £2½ or £3 per cent. to tradesmen, or others that agree with them for the same, and making payment thereof by assignation, and passing each man's account from one to another with much facility and ease"

So Francis Cradocke, a London merchant, who strongly advocated the introduction of Banks into England, and who was appointed a member of the Board of Trade by Charles II., says—"A Banke is a certain number of sufficient men of Credit joyned together in a stock, as it were, for keeping several men's cash in one Treasury, and letting out *imaginary money* at interest, for three or more in the hundred per annum, to tradesmen or others that agree with them for the same: and making payment thereof by assignation, passing each man's accompt from one to another, yet paying little money." And he says that "the aforesaid bankers may furnish another petty Bank (or Mount) of Charity"

In a little tract entitled "*A Discourse concerning Banks*," published in 1697, and supposed to be by a Director of the Bank of England, it says that there are three kinds of Banks: the first for the mere Deposit of money; the second for Profit—"The **Banks** of the second kind, called in Italy **Monti**, which are for the benefit of the income only, are the Banks of Rome, Bolonia, and Milan. These banks were made up of a number of persons who, in time of war, or other exigences of State, advanced sums of money upon funds granted in *perpetuum*, but redeemable. . . . . The third kind of banks, which are both for the convenience of the public, and the advantage of the undertakers, are the several banks of Naples, the Bank of St. George at Genoa, and one of the banks of Bolonia. These banks having

advanced sums of money at their establishment, did not only agree for a fund of perpetual interest, but were allowed the privilege of keeping cash." The Bank of England was of this last kind

So Evelyn speaks of the "Monte di Pietà, at Padua, where there is a continual bank of money to assist the poor"

So Blackstone says—"At Florence, in 1344, Government owed £60,000, and being unable to pay it, formed the principal into an aggregate sum, called, metaphorically, a **Mount,** or **Bank**"

So the Bank of England was formed of a Company or Association of persons, who advanced a sum of money to Government, and received in exchange for it a perpetual annuity : a Right to a series of payments for ever from the State. This Annuity is, in popular language, called the Funds : but the legal name is "Consolidated **Bank** Annuities"

There has only been one instance in this country of a Bank which did not receive deposits in cash. Soon after the foundation of the Bank of England, a Company of persons united to advance a million to the Government. They were incorporated as the "Million Bank." This Company existed till nearly the end of the last century, and it resembled the original Bank of Venice

The essential feature of all these **Banks** was this : the subscribers advanced the Money as a Loan, or **Mutuum :** and thus it became the absolute property of the borrowers : and in exchange for their Money they received a **Credit :** *i.e.*, a Certificate, or Promise to pay interest ; and the very essence of "**Banking**" is to receive money as a **Mutuum :** and to give in exchange for it Credits, Debts, Promises to pay, or Rights of action to demand an equal sum back again when they please

On the Meaning of the word **Banker**

4. Equally great misconception prevails as to the meaning of the word **Banker,** and the nature of the business of **Banking**

Gilbart says—"A banker is a dealer in **Capital :** or, more properly, a dealer in **Money.** He is an intermediate party between the borrower and the lender. He borrows of one party and lends to another ; and the difference between the terms at

which he borrows, and those at which he lends, forms the source of his profit"

This extract shows the most profound misconception of the nature of the business of Banking

In former times there were many persons who acted as intermediaries between persons who wanted to lend, and persons who wanted to borrow. They were called Money Scriveners. The father of John Milton was a Money Scrivener. But nobody ever called Money Scriveners Bankers

At the present day a firm of solicitors may have some clients who wish to lend, and also other clients who wish to borrow : and they may act as intermediaries between them. The first set may entrust their money to the firm to lend to the second set : and the solicitors receive a commission on the sums which pass through their hands. But no one ever called a firm of solicitors, who transact such business, "**Bankers :**" which shows that there must be an essential distinction between the business of such solicitors and the business of "banking"

Solicitors who transact such business do not acquire any Property in the money which passes through their hands. They receive it merely as a **Depositum,** or **Bailment :** they are only the Custodians, or Trustees of the money : and it is only entrusted to their custody for the express purpose of being applied in a certain way. The actual Property in the money passes directly from the lender to the borrower through the medium of the Trustees or Bailees : and if the latter appropriated it in any way to their own purposes, they would be liable to be punished for embezzlement

The essential feature of a "**Banker**" is, that when his customers pay in money to their accounts, *they cede the Property in the money to the Banker.* The money placed with him is not a Depositum, or Bailment ; but it is a **Mutuum :** it is a Loan, or Sale, directly to himself. The "banker" buys the money from his customer : and in exchange for it, he gives his customer a Credit, or Right of action to demand back an equivalent amount of money at any time he pleases ; which Right of action he is also at liberty to transfer to any one else he pleases

Galiani says—"Banks began when men saw, from experience,

that there was not sufficient money in specie for great commerce and great enterprises

"The first banks were in the hands of private persons, with whom persons deposited money, and from whom they received Bills of Credit (*fedi di Credito*) : and who were governed by the same rules as the public banks now are. And thus the Italians have been not only the fathers, and the masters, and the arbiters of commerce, so that in all Europe they have been the depositaries of money, and are called **Bankers**"

So Genovesi says—"These Monti were at first administered with scrupulous fidelity, as are all human institutions made in the heat of virtue. From which it came to pass that many placed their money on deposit : and as a Security received paper which was called, and is still called, Bills of Credit. Thus private Banks were established among us, whose Bills of Credit acquired a great circulation, and increased the quantity of signs and the velocity of commerce"

And this was always regarded as the essential feature of "**banking.**" Thus Marquardus says—"And by "**Banking**" is meant a certain species of trading in money, under the sanction of public authority, in which money is placed with bankers (who are also cashiers and depositaries of money) for the security of creditors, and the convenience of debtors, in such a way that *the Property in the money passes to them :* but always with the condition understood that any one who places his money with them may have it back whenever he pleases"

A "**Banker,**" therefore, always buys money with his own **Credit :** or, by giving in exchange a Right of action to demand back an equal sum at any time : and, moreover, when he buys Commercial Debts, or discounts Commercial Bills of Exchange, as it is technically termed, he does it in exactly a similar way : in exchange for the Bill of Exchange he gives his customer a Credit in his books ; or the Right to demand a sum of money from him. Thus he buys one Debt, or Credit, by giving in exchange for it another Debt, or Credit : and experience shows that his Credit may several times exceed the cash in his possession. Thus the business of a "banker" is essentially to **Create Credit**

The following is the true definition of a "Banker"—

A **Banker** *is a Trader whose business is to* **buy Money** *and* **Debts** *by* **creating** *other* **Debts**

As will be more fully exemplified in a subsequent section

On the Currency Principle

5. We must now explain the meaning of an expression which has been frequently used in recent discussions, and which must be clearly understood before we come to the exposition of the system which the Bank Charter Act of 1844 is designed to carry out

The express function and purpose of a Bank being to create Credit, it has been sometimes asserted that a Bank should only be allowed to create exactly as much Credit as the specie paid in, and no more. And that its sole function should be to exchange Credit for Money and Money for Credit : and thus the quantity of Credit would always be exactly equal to the Money it displaces

This doctrine is that which is distinctively known by the name of the **Currency Principle :** it is the doctrine which the supporters of the Bank Charter Act of 1844 asserted to be the only true one : and which that Act was intended to carry out

This doctrine was first clearly formulated in China, in 1309. That country had been plagued with excessive issues of inconvertible paper for nearly 500 years. The author of a work, Tsao-min, exhibiting the evil consequences of excessive issues of Paper Money, and speaking of the times before such mischiefs took place, said—"Then it was ordered that at the offices of the rich merchants who managed the enterprise, when the Notes were paid in the Money came out : when the Bills came out the Money went in : the Money was the mother, the Note was the son. The son and the mother were reciprocally exchanged for each other"

Several Banks have been constructed on this principle : such as those of Venice, Amsterdam, Hamburg, Nuremberg, and others

These places, small in themselves, were the centres of a great foreign commerce : and, as a necessary consequence, large quantities of foreign coin of all sorts, of different countries and denominations, were brought by foreigners who resorted to them. These coins were, moreover, greatly clipped, worn, and diminished.

This degraded state of the current coins produced intolerable inconvenience, disorder, and confusion among merchants, who, when they paid or received payment of their bills, had to offer or receive a bagful of all sorts of different coins. The settlement of these bills, therefore, involved perpetual disputes—which coins were to be received, and which were not, and how much each was to count for. In order to remedy this intolerable inconvenience, it became necessary to institute some fixed and uniform standard of payment, so as to ensure regularity and a just discharge of debts. In order to effect this, the Magistrates of these cities instituted a Bank of Deposit, in which every merchant placed his coins of different kinds and nations. These were all weighed, and the Bank gave him a Credit in its books for the exact Value of the Bullion deposited. The owner of the Credit was entitled to have it paid in full weighted coin on demand. These Credits, therefore, insured a uniform standard of payment, and were called **Bank Money:** and it was enacted that all Bills upon these respective cities, above a certain amount, should be paid in Bank Money only. As this Bank Credit, or Bank Money, was always exchangeable for coin of full weight on demand, it was always at a premium, or *agio*, as compared with the worn, clipped, and degraded coin in circulation. The difference was usually from 5 to 9 per cent. in the different cities. The term *agio*, or premium, is misleading: because it is clear that the Bank Money was the true standard, and the current coin was at a discount. These Banks professed to keep all the coin and bullion deposited with them in their vaults. They made no use of it in the way of business, as by discounting bills. Thus the Credit created was exactly equal to the specie deposited: and their sole function was to exchange Specie for Credit, and Credit for Specie

These Banks were examples of the **Currency Principle.** They were of no further use to commerce than that they served as a safe place to keep the merchants' money in: and that they insured a uniform standard of payment of debts. They made no profits by their business: and no Bank constructed on the Currency Principle ever did, or ever could, by any possibility, make profits by business. The merchants who kept their accounts with them, paid certain fees to defray the expenses of the establishment

This Currency Principle is not only advocated as the sound one by many influential writers, especially those to whom the Bank Charter Act of 1844 is due, but Mill goes further: he says—

"Further consideration showed that the uses of money are in no respect promoted by increasing the quantity which exists and circulates in a country, the service which it performs being as well rendered by a small as by a large aggregate amount . . . .

"Another of the fallacies from which the advocates of an inconvertible currency derive support, is the notion that *an increase of the currency quickens industry*. This idea was set afloat by Hume, in his Essay on Money, and has had many devoted adherents since . . . . .

"The substitution of Paper for Metallic Currency is a national gain, **any further increase of Paper beyond this is but a form of robbery**

"An issue of notes is a manifest gain to the issuers, who, until the notes are returned for payment, obtain the use of them as if they were real capital: and *so long as the notes are no permanent addition to the currency*, but merely supersede gold and silver to the same amount, the gain to the issuer is a loss to no one: it is obtained by saving the community the expense of the more costly material. *But if there is no gold and silver to be superseded—if the notes are added to the currency, instead of being substituted for the metallic part of it*—all holders of currency lose by the depreciation of its value the exact equivalent of what the issuer gains . . . . .

"When metallic money has been entirely superseded and expelled from circulation by the substitution of an equal amount of bank notes, *any attempt to keep a still further quantity of paper in circulation, must, if the notes be convertible, be a complete failure*. The new issue would again set in motion the same train of consequences by which the gold coin had already been expelled. The metals would, as before, be required for exportation, and would be for that purpose demanded from the banks to the full extent of the superfluous notes, which thus could not possibly be retained in circulation"

We shall now proceed to give an exposition of the actual

mechanism of banking, and the student will see how far these assertions are borne out by the facts

On the **Mechanism** *of* **Banking**

6. Banks, of the nature of those of Venice, Amsterdam, and Hamburg, never existed in this country, and we must now explain the mechanism of the great system of Banking, or the great system of the commerce in Debts, Credits, or *Choses-in-action*, as it has been carried on in this country

It was during the great civil war, as we have explained elsewhere, that the goldsmiths of London first began to receive the cash of the merchants and country gentlemen for safe custody, on condition of repaying an equal sum on demand

Now this money was not placed in their hands to be locked away idle in their cellars, as plate and jewelry are often given to the care of a banker as a **Depositum**, and to be restored *in specie*. The money was sold to the banker as a **Mutuum**: to be restored only *in genere*. And they agreed not only to repay it on demand, but to pay six per cent. interest for it: consequently, they were obliged to trade with it in order to make a profit

We must now explain how a banker trades with money

Suppose his customers pay in £10,000 to their accounts: then the money becomes the banker's absolute property as a **Mutuum.** In fact, he **Buys** the money from his customers, and in exchange for it, he gives them a Credit in his books: that is, he creates a Right of action against himself for an equal amount. This Right of action, Credit, or Debt, in banking language, is termed a **Deposit**

After such an operation, his accounts would stand thus—

Liabilities		Assets	
Deposits	£10,000	Cash	£10,000

Now, though his customers have Rights of action against the banker to demand back exactly an equal quantity of money as they have paid in, yet persons would not place money with their banker if they meant to draw it out again immediately: just as no one would spend at once all the money he had. Nevertheless, some will want to draw out part of their funds: but if some

customers want to draw out money, others will probably pay in about an equal sum. It may be said that, in ordinary and quiet times, a banker's balance in cash will seldom differ by more than one thirty-sixth part from day to day. So that if he retains *one tenth* of his cash to meet any demands which may be made upon him, that is ample and abundant in all ordinary times

If, then, in the above example, the banker retains £1,000 in cash to meet any demands upon him, he has £9,000 to trade with : and it is just in the method in which bankers trade that so much misconception exists

It is commonly supposed that when a banker has the £9,000 to trade with, he employs it in purchasing Bills of Exchange to that amount : and that he receives a profit only on the £9,000 : but that is a complete misconception of the nature of "**Banking**"

A "banker" never buys Bills with money in the first instance: that is the business of a Bill Discounter, or a Bill Broker

The way in which a "banker" trades is this. He sees that £1,000 in cash is sufficient to support Liabilities of £10,000 in Credit ; consequently, he argues that £10,000 in cash will bear Liabilities to several times that amount in Credit

One of the most eligible methods of trading for a banker is to buy or discount good Commercial Bills. And he buys these Bills exactly in the same way as he bought the Cash : that is, by creating Credits in his books ; or Debts : or Rights of action against himself to the amount of the Bills—deducting, at the same time, the Interest, or Profit agreed upon : which is called the **Discount**

A "banker," therefore, never buys a Bill with Cash in the first instance. He buys the Bill, which is Debt payable at a future time, by giving his customer a Credit in his books for the amount of the Debt, less the Discount : which is a Right of action the customer has to demand the money if he chooses. That is, he buys a Right of action, payable at a future time, by creating or issuing a Right of action, payable on demand. And this Right of action, Credit, or Debt, is equally, in banking language, termed a **Deposit,** as the Right of action he created to buy the money

Suppose that the "banker" buys £40,000 of Commercial Bills at three months, and that the agreed upon Profit was four

per cent. Then the sum to be retained on the Bills would be £400. Consequently, in exchange for Bills to the amount of £40,000, he would create Credits, Debts, or Rights of action against himself—technically termed **Deposits**—to the amount of £39,600

Hence, just after buying these Bills, and before his customers begin to operate on their accounts, his accounts would stand thus—

Liabilities		Assets	
Deposits	£49,600	Cash	£10,000
		Bills of Exchange ..	40,000
	£49,600		£50,000

The balance of £400 being his own Property, or Profit

By this process the "banker" has added or created £39,600 in Credit to the previously existing cash : and his Profit is clear : he has not gained four per cent. on the £9,000 in cash : but four per cent. on the £40,000 of Bills he has bought

Now this is what the business of "banking" essentially consists in : and thus the correctness of the definition of a "**Banker,**" given above, is manifest

A **Banker** *is a Trader who buys* **Money** *and* **Debts** *by* **creating** *other* **Debts**

Thus we see that the essential and distinctive feature of a "**Bank**" and a "**Banker**" *is to* **Create** *and* **Issue Credit** *payable on Demand :* and this Credit is intended to be put into circulation and serve all the purposes of money. A bank, therefore, is not an office for **borrowing** and **lending Money :** but it is a **Manufactory** *of* **Credit**

It is thus seen how erroneous Gilbart's description of a banker as "a person who deals in Capital, or rather in **Money,**"—

And also the description of Banking given in the Report of the House of Commons on the commercial panic of 1858—"The use of **Money,** and that **Only,** they regard as the province of a bank, whether of a private person, or Incorporation, or the banking department of the Bank of England"

On a Common Error *respecting* Deposits

7. We must now notice a very common error respecting the meaning of the word **Deposit:** which will show how necessary it is to understand the changes of meaning which some words, which have been adopted from Roman Law, have undergone in modern business

A **Depositum,** in Roman Law, means anything which is placed in the charge or custody of a person for the mere purpose of safe keeping: without the Property in it passing to him: or his being allowed to use it for his own advantage

It is part of the duty of a London banker to take charge of his customers' plate, jewelry, or securities, if required to do so. This plate, jewelry, &c., so committed to the banker's charge for safe keeping only, is a **Depositum**: but he acquires no property in it: and he receives no remuneration for so doing

It is very often supposed that when a customer pays in money to his account, that money is a **Deposit.** This is the first error on the subject: because the money so paid in is not a **Depositum:** it is a **Mutuum.** The money is in reality sold to the banker: and it has become his actual property to deal with as he pleases

In the next place, it is not the cash which is paid in which, in banking language, is termed the **Deposit:** but the **Credit,** or **Right of action,** which is created in exchange for it. So, when a banker discounts a Bill of Exchange he buys a Right of action, by creating and giving a Credit, or Right of action in exchange for it: and the Credit is also called a **Deposit.** The Money, or Bill of Exchange, sold to the banker, are his **Assets.** *And the* **Deposits** *are his* **Liabilities:** *or the* **Price** *he pays for his* **Assets**

As the error respecting the meaning of the word Deposit is almost universal among writers and speakers on banking, we may mention one conspicuous instance of it

Mr. John Torr, a Liverpool merchant, was questioned by Mr. Wilson before the Committee of the House of Commons, in 1858

4939. "I believe I am correct in the fact that all the transactions of the banks in New York are published periodically, and

at very short intervals, by the banking department ?—I believe they are published weekly "

4940. " These accounts, as they are published, show the circulation of notes, the amount of specie held by the banks, the amount of advances made by the banks, and all the items in great detail, do they not ?—They do "

4941. " Are you aware that, during the last two or three years, while the circulation of notes had not increased at all, or had increased to the very smallest possible amount, the amount of advances, as shown by these amounts, had, as you have referred to, increased to a very enormous amount ?—Yes ; I must apologise for the answer I gave ; I meant the advances when I said the notes : I meant the liability of the bank from its advances made on securities "

4942. *Chairman* (*Mr. Cardwell*). " *The mere act of making an advance does not render a person liable:* **of course, the liability is the other way** ?—Yes "

4243. " Will you trace the process by which the banks increased their own liabilities by making advances to others ?—Looking at the securities which they held from other parties, by making advances to a number of merchants to a larger amount than usual, they felt that the indebtedness of these parties to them was more than was prudent "

4944. *Mr. Wilson.* " Do you think that the banks had made undue and imprudent advances in the loan of their Capital and **Deposits** ?—I apprehend that they thought so " . . . .

4945. " Are you aware that, during the last three or four years, the amount of the Capital subscribed to the banks of New York had very greatly increased ?—I do not know it from my own knowledge "

4947. " But it would be either from *Deposits* or from Capital that increased advances could be made by the banks ?—Certainly "

4948. " Therefore, if you are aware that increased advances were made to a large extent, it must have been either from an increase of subscribed Capital, or from an increase of *Deposits* ?—Yes ; I apprehend so "

The above extract shows how completely the chairman, Mr. Cardwell, had misconceived the true nature and effects of banking. Mr. Torr had a perception of the true nature of it : for he says

that the banks had *increased* their liabilities by their advances : which was undoubtedly true : because banks make *all* advances by creating liabilities. This, however, seemed a paradox to Mr. Cardwell, who sneeringly asked the witness to explain how banks increased their own liabilities by making advances to others. Whereas, as we have seen, the only way a bank has of making an advance is by creating a liability. Mr. Wilson asked him if the banks made imprudent advances out of their Capital and *Deposits*. Banks do not make advances out of their Deposits : but they make an advance by *creating* a Deposit : or Credit in their books

This misconception of the meaning of the word Deposit, leads to a somewhat amusing error which is usually seen in the newspapers every half-year, after the Joint Stock Banks publish their accounts. Many papers give summaries of the accounts of the London Joint Stock Banks, which show that they have £200,000,000 of **Deposits :** and the writers enlarge on the wonderful quantity of money which the banks have to lend out, or trade with. As a matter of fact there are not two hundred millions of sovereigns in the whole country. The best authorities place the amount of sovereigns in the country at somewhere about one hundred and twenty millions. Moreover, an eminent authority has calculated that the " Deposits " in all the banks in the kingdom may be estimated at about £800,000,000. Now, if there are but £120,000,000 in sovereigns in the whole country, how can there be £800,000,000 of *Deposits* in the banks ? Of course, any one who knows the real meaning of *Deposits*, as a technical term in banking, knows well enough that it is a complete error and delusion to suppose that the London banks have two hundred millions of actual money : as any one may see who looks at their assets in cash. These Deposits are not Deposits in cash at all : they are nothing but **Credit :** and are merely so many bank notes in disguise. They are nothing but an enormous superstructure of **Credit,** reared up on a comparatively small basis of bullion : exactly like the Issues of Notes. These figures do not show the quantity of Cash the banks have at their command to trade with : but they show the quantity of business *they have done :* and the *liabilities they have created.* These apparent Deposits, instead of being so much cash, are nothing but the

Credits, or **Rights of action**, the banks have created as the Price with which they have purchased the Cash and Bills which figure on the other side as **Assets.** A sudden increase in Banking Deposits is, in reality, nothing more than an inflation of Credit : exactly similar to a sudden increase of Bank Notes. After all the great monetary panics it is invariably observed that the Deposits in banks greatly diminish. In July, 1858 and 1867, the aggregate of Deposits in the Joint Stock Banks appeared to be considerably less than in July, 1857 and 1866 : and it is often supposed that persons draw their money out of the banks at such times. But such assertions are erroneous : the banks have then just as much Cash as before : probably more. But the diminution in Deposits arises from the fact that in times of commercial depression there are fewer bills created through the operations of commerce. Consequently, there are fewer bills for the banks to purchase : and if they have no bills to buy, they cannot create Deposits. Hence this diminution of Deposits is *not a diminution of Deposits in Cash :* it is a **Contraction** *of* **Credit**

In Banking Language a **Deposit** *and an* **Issue** *are the same*

8. The student must, therefore, carefully observe that, in the language of banking, a **Deposit** *and an* **Issue** *are the same thing.* A Deposit is simply a Credit in a banker's book, giving the customer a Right of action against him for a sum of money. And as soon as the banker has created a Credit, or Deposit, in his book in favour of his customer, he has **Issued** a Right of action against himself. The word Issue comes from *Exitus*, a going forth : and, in Mercantile Law, to **Issue** an instrument is to deliver it to any one so as to give him a Right of action against the deliverer

It in no way increases the banker's liability to write the liability down on paper. Such is only done for the convenience of transferring the Right of action to some one else. When the Credit remains in the simple form of a Deposit, the banker knows who his Creditor is : when he gives the Promissory Note, and his Creditor transfer it to some one else, the banker has no means of knowing who his Creditor is. The same thing, however, may

happen in the case of a Deposit : because the Creditor may transfer his Right of action by means of a Cheque to any one else : and it may circulate exactly like a Bank Note. Hence, the banker may be equally ignorant who his real Creditor is, in one case as the other

It is, therefore, a fundamental error to divide banks into " Banks of **Deposit** " and " Banks of **Issue.**" All banks are " Banks of **Issue.**" The only distinction is, whether the Credit they create is strictly confined to the Money they buy with it : or whether they are allowed to create Credit in excess of the Cash they hold, in order to buy Bills of Exchange with them, and so make a profit by so doing

Whether the Credit they create is recorded on paper or not, in no way alters the amount of their liabilities

On the method of **Utilising Banking Credits**

9. The banker, then, having **Issued** these Credits, Deposits, or Rights of action against himself to his customers, they, of course, cannot transfer them to any one else by manual delivery. In order to be capable of manual delivery, they must be recorded on paper : and this might be done in two forms—

1. The banker might give him his own Note, promising to pay a certain sum to the customer, or to " bearer "

2. The customer might write a note to the banker, desiring him to pay the money to some particular person : or to his order, or to bearer. These orders were formerly called Cash Notes : they are now called **Cheques**

These paper documents neither create nor extinguish liabilities: they merely record them on paper for the purpose of transferring them to some one else

Bankers' Notes were at first merely written on paper, like any other Promissory Notes : and they were for any sums. In 1729, Child & Co. introduced the practice of having their Notes partly printed and partly written, like a modern cheque. But still they were not like modern bank notes for even pounds : but just for any odd sums that might be required, like a cheque

London bankers appear to have issued their own notes till about 1793 : when, perhaps, the panic of that year may have

shown them the danger of having their notes in the hands of the public : and it seems that they discontinued issuing them about that time. But they were never forbidden to issue notes till the Bank Charter Act of 1844

Operations by means of Cheques

10. When, therefore, a banker has created a Credit, or Deposit, in favour of a customer, he can put this Credit into circulation either by means of the banker's own Note, or by means of a Cheque : and, when he does so, the following different results may take place—

1. The customer himself, or the holder of the Cheque or Note, may draw out the actual money : if they do so, the banker's liability is extinguished. It is a resale of money to the holder of the Note or Cheque, and the banker buys up the Right of action against himself

2. The Cheque or Note may circulate in commerce, and effect any number of payments, exactly like money : and it may, ultimately, be paid into the account of another customer of the same bank, and the series of transactions finally closed by the mere transfer of Credit from one account to another

3. The Cheque or Note may, after performing a similar number of exchanges, fall into the hands of the customer of another bank, and be paid into that bank. So the banker becomes debtor to the customer of another bank. But if the banker A. becomes debtor to the customers of the banker B., the chances are that about an equal number of the customers of the banker A. will have claims against the banker B. If the mutual claims of the customers of each bank on the other are exactly equal, the respective orders are interchanged, and the Credits re-adjusted to the accounts of the different customers, without any payment in money. Thus, if the mutual claims among any number of bankers exactly balanced, any amount of business might be carried on without requiring a single coin. Formerly, if the mutual claims did not balance, the differences used to be paid in coin or bank notes : but now, by an ingenious arrangement at the Clearing House, the use of coin and bank notes is entirely dispensed with : and all the banks in the clearing are really and practically formed

into one huge banking institution for the purpose of transferring Credits amongst each other, just as Credits are usually transferred from one account to another in the same bank without a single coin being required

On the **Legal Relation** *between* **Banker** *and* **Customer**

11. It must be carefully observed that the Legal Relation between Banker and Customer is simply that of Debtor and Creditor. When a customer pays in money to his account, he cedes the absolute property in the money to his banker: and, in exchange for it, he acquires nothing but a **Right of action** to demand an equal sum at any time he pleases

There is so much misapprehension on this point, and in speaking of banking business it is so often implied that the money placed with a banker still belongs to the customer, that it may be of advantage to quote the words of Lord Chancellor Cottenham, in the case of *Foley* v. *Hill*, in the House of Lords (2 H. L., cases 28)—"Money, when paid into a bank, ceases altogether to be the money of the principal: it is then the money of the banker, who is then bound to return an equivalent, by paying a similar sum to that deposited with him, when he is asked for it. The money paid into the banker's, is money known by the principal to be placed there for the purpose of being under the control of the banker: it is then the banker's money: he is known to deal with it as his own: he makes what profit of it he can: which profit he retains to himself, paying back only the principal, according to the custom of bankers in some places: or the principal and a small rate of interest, according to the custom of bankers in other places. The money placed in the custody of a banker is, to all intents and purposes, the money of the banker, to do with as he pleases: he is guilty of no breach of trust in employing it: he is not answerable to the principal if he put it into jeopardy—if he engages in a hazardous speculation: he is not bound to keep it, or deal with it as the property of the principal: but he is, of course, answerable for the amount, because he has contracted, having received that money, to repay the principal when demanded, a sum equivalent to that paid into his hands"

It must, therefore, be carefully observed that a "banker" in no way resembles the treasurer of a public fund, or a solicitor, or a money scrivener, who are mere trustees of the money entrusted to them. If a "banker" were the mere trustee of the money placed with him, he would not be entitled to use it for his own purposes

It is often the custom of persons to say that they have so much "money" at their banker's: but such an expression is entirely erroneous: they have no "money" at their banker's: they have nothing but a **Right of action** to demand so much money from their banker

As a consequence of this relation between banker and customer, if a customer were to leave a balance at his banker's for six years, without operating on his account, the banker might, if he chose, refuse to pay the balance, under the Statute of Limitations: but if it were a mere Trust, he could not refuse: because that Statute does not apply to Trusts

Another consequence of this relation is that a Cheque is a Bill of Exchange, and not a Draft: it is an Order addressed by a Creditor to his Debtor, and not to his Trustee or Bailee: to call a Cheque a Draft, as is often done, is to mistake the relation between Banker and Customer

On the **Legal Contract** *between* **Banker** *and* **Customer**

12. It has been shown that the Legal Relation between Banker and Customer is simply that of Debtor and Creditor

Nevertheless, there is an important distinction between an ordinary Debtor and a banker Debtor

An ordinary Debtor is not bound at Common Law to accept or pay a bill drawn upon him by his Creditor without his own consent; even though he should admit that he possessed funds: nor if his Creditor assigns his Debt is he bound to pay the Transferee: nor has the Transferee an action against him in his own name: because there is no privity of contract between the Debtor and the Transferee: and the Creditor has no power to stipulate that the Debtor should pay the Transferee: unless he expressly consents to do so

The Transferee can only sue the Debtor under the name of the Transferor: or the Transferor can sue as the Trustee of the Transferee

If, however, the Debtor had entered into an Obligation, under seal, promising to pay an assignee, or bearer: or had accepted a Bill of Exchange payable to order, or to bearer: then the Transferee might sue him in his own name, because the consent of the Debtor had created a privity of contract between himself and the Transferee

But the case of a Banker Debtor has always been different. In order to encourage persons to place their money with them, the Goldsmith Bankers agreed that their customers should have, as nearly as possible, the same facilities for transferring their Rights, as if they had the money itself in their hands

Consequently, from the very first, it was always the Custom of bankers that their customers might either demand payment themselves; or they might transfer their Rights of action to any one else they pleased, or to bearer

By the very nature, therefore, of the Consensual Contract, termed the Custom of Bankers, a banker having funds of his customer, is in the position of an ordinary Debtor who has accepted a Bill payable to order, or to bearer

Hence, while no simple admission of the possession of funds by an ordinary debtor can compel him to pay the holder of a Bill drawn on him, without his own consent: the admission of the possession of funds by a banker operates, *ipso facto*, as a legal acceptance of any Cheques or Bills drawn on him by his customer: and gives the holders of them a Right of action against him

It has sometimes been supposed that the holder of a Cheque has no action against a banker, even though he possesses funds of his customer, because he has not accepted the Cheque

But this is to overlook the special conditions of the relation of Banker and Customer. By that contract he specially agrees with his customer to pay any one to whom his customer may transfer his Right of action: and, therefore, if the holder can prove that he has funds of his customer in his hands, he has an action against him

In *Liversidge* v. *Broadbent* (4 H. & N., 612), Martin, B.,

said—"A banker is in the position of a person having in his hands the money of another, which he is at any moment liable to be called upon to pay: and the Courts have grasped at that to make a contract between the banker, his customer, and a third party, for the payment of the money to the latter, operate as a transfer of the money, so that an action for money had and received can be maintained for it." It is not exactly that the Courts have made the contract: they only give effect to the fundamental contract which the banker has voluntarily entered into with his customer

Error of the Common Description *of* Banking

13. From the preceding account of the actual mechanism of Banking, it will be seen what a complete misconception it is of the nature of Banking to say that bankers are merely agents or intermediaries between persons who wish to lend and persons who wish to borrow. This is entirely untrue in the ordinary sense of "lending" and "borrowing:" because, in the ordinary case of "lending," the lender deprives himself of the use of the thing lent. But when a person pays in money to his banker, he has no intention whatever of depriving himself of the use of it. On the contrary, he means to have the same free command of it as if it were in his own house. The customer, therefore, "lends" his money to his banker, but at the same time has the free use of it. The banker employs that money in promoting trade. Upon the strength of it being deposited with him he buys Debts with his Promises to pay, several times exceeding the amount of the cash placed with him: and the persons who sell him their debts have the free use of the very same coin which the "lender" has the same right to demand. Thus the "lender" and the "borrower" have the same rights at the same time to demand the same coin. And all banking depends on the calculation that only a certain portion of each set of customers will demand the actual cash; but that the majority will be satisfied with the mere promise to pay, or the Credit

Banking is a species of insurance: it is practically possible that a banker may be called upon to pay all his liabilities on demand at once, just as it is theoretically possible that all the

lives insured in an office may drop at the same instant, as it is theoretically possible that all the houses insured in an office may be burned down at the same instant. A large and sudden demand for money on a bank is termed a **Run**: and a run upon a Bank is analogous to a pestilence or a conflagration to an Insurance Office. But all Insurance and Banking is based upon the expectation that these contingencies will not happen. A banker *multiplies* his liabilities to pay on demand, and keeps by him a sufficient amount of cash to ensure the immediate payment of all claims which are likely to be demanded at one time. If a pressure comes upon him, he must sell some of the securities he has bought, or borrow money on them

On the Clearing House

14. We may say a few words here about the Clearing House, respecting which, as in everything relating to banking, there is great misconception

It is usually supposed that the Clearing House is an example of the principle of Compensation, and that the Credits exchanged in it are extinguished. In foreign treatises it is usually called *Maison de Liquidation*. This, however, is a complete error

It has been seen that if any number of the customers of the same bank have transactions among themselves, and give each other Cheques on their accounts, any amount of transactions may be settled by the simple transfer of Credits from one account to another, without a single coin being required, so long as the receivers of the Cheques do not draw out the money

The Clearing system is a device by which all the banks which join in it are formed, as it were, into one huge banking institution for the purpose of transferring Credits from one bank to another, just in the same way as Credits are transferred from one account to another in the same bank, without the use of coin

Suppose that a customer of the Commercial Bank has £100 in notes of the Royal Bank paid to him: then he is the Creditor of the Royal Bank to that amount. If he pays these notes into his account with the Commercial Bank, he constitutes the Commercial Bank his agent to obtain payment of these notes from the Royal Bank, and to place the proceeds to his account

Suppose that, in a similar way, a customer of the Royal Bank has been paid £100 in notes of the Commercial Bank, and pays them in to his account. Then he constitutes the Royal Bank his agent to obtain payment of the notes from the Commercial Bank, and to place the proceeds to his account

Each bank, in such a case, is Debtor to the customer of the other

The full way of proceeding would be for each bank to send a clerk to the other to obtain payment of its notes in cash. Each bank, then, having obtained payment, would carry the proceeds to the Credit of its own customer. Thus each bank would pay away £100 in cash: and it would require £200 in cash to settle the business. When this was done, each bank would be Debtor to its own customer: and the Quantity of Credit would be just the same as before. The only difference would be that each bank, instead of being Debtor to the customer of the other bank, would be Debtor to its own customer

The transaction, however, may be effected in a much simpler way. Let the agents of the two banks meet. The agent of the Commercial Bank says—"In consideration of your giving up to me the notes on which I am Debtor to your customer, I agree to become Debtor to my own customer for their amount." In exactly similar way the agent of the Royal Bank says—"In consideration of your giving up to me the notes upon which I am Debtor to your customer, I agree to become Debtor to my own customer to that amount." The agents of the two banks then exchange notes: and each bank having received £100 in its notes—that is, being released from its Debt to the customer of the other, which, as we have already seen, is equivalent to a payment in money—enters the amount to the Credit of its own customer

By this means each bank, instead of being Debtor to the customer of the other, is now Debtor to its own customer: and the use for £200 in cash is saved

However numerous the banks may be which join in this system, the effect is exactly the same. Credits are not destroyed: they are only transferred from one bank to the other, without the use of coin. The importance of this method may be understood, when Credits to the amount of about £6,000,000,000 are annually transferred between the different banks which join in the London

Clearing House, without the use of a single coin. And thus is seen its great importance, in a national point of view, in economising the use of coin

On the **Caution** *Necessary in applying* **Mathematics** *to* **Economics**

15. We now see how necessary it is to be cautious in applying Mathematics to Economics : and how necessary it is to have a precise and accurate statement of the facts : so that the Mathematics may be subservient to the facts : and not the mistress of them

Several distinguished Algebraists—Peacock, Balfour Stewart, and Tait—in acknowledging that Debts are Negative Quantities, put it in this way—"If property, possessed or due, could be denoted by a number or symbol with a Positive sign, a Debt would be indicated by a number or symbol with a Negative sign, or conversely : such affections of property are correctly symbolised by the signs + and — : since they possess the inverse relations to each other which these signs require : for if to a person, A., there be given a certain property, or sum of money, combined with or added to a Debt of equal amount, his Wealth or Property remains the same as before"

This mode of statement is correct in a certain sense : if a person were going to retire from business he would call in and discharge his liabilities, and the remainder, if any, would be his fortune

But such a mode of statement is quite unsuitable for the science of Economics : as is shown most clearly when it is applied to Banking. Because, when a banker buys £10,000 in cash from customers he is exactly in the position described by these Algebraists. He has bought £10,000 in cash from his customers by creating an exactly equal amount of Rights of action, or Debts, against himself : his property is, therefore, correctly stated as £10,000 — £10,000 : and therefore, no doubt, substantially he is exactly in the same position as he was before : *he* is neither the richer nor the poorer

But that is an extremely incorrect view to take of the matter as regards the science of Economics. Economics has only to do

with the number of Economic Quantities in existence at any given instant, and with their exchangeable relations

Now, so long as the money is left in the banker's hands it is his property. But his customers have at the same time an exactly equal amount of Rights of action against him ; which they can put into circulation, like money : and which may effect exchanges, or payments, exactly in the same way as if they were actual money

No doubt the banker is subject to an equal amount of Debts ; but we have shown that the true interpretation of the Negative sign, as applied to *Debts*, is a mere *personal Duty to pay :* and that this has no effect in an Economical point of view until the Debtor is actually called upon to perform his duty : and when he has done so the Right of action is extinguished, and ceases to exist as an Economic Quantity

The liabilities of a banker, or Banking Credits, are Exchangeable Quantities, which may be sold or transferred : hence, all these Rights of action, while they exist, are independent Exchangeable Quantities. When they are paid off and extinguished they, no doubt, cease to exist : but everything else, when it is destroyed, ceases to be an Economic Quantity. These Rights of action, while they exist, are governed by exactly the same rules as any other Economic Quantities

To shew the subtle nature of the question, let us again consider the accounts between a banker and his customers. From the banker's point of view his Assets, whether Cash or Bills, are his absolute Property (+) : and his Liabilities are his Debts (—) : and his accounts would be stated thus—

Liabilities		Assets	
—		+	
Deposits	£49,600	Cash	£10,000
		Bills of Exchange ..	40,000
	£49,600		£50,000

But, from the customers' point of view, the case is exactly reversed. The banker's Liabilities are the absolute Property of his customers (+) : and they have claims to that amount against

the banker's Assets (—). Hence, from the customers' point of view, the accounts would stand thus—

Rights of Action	+		Banker's Assets	—	
Deposits		£49,600	Cash		£9,600
			Bills of Exchange ..		40,000
					£49,600
			Balance	+	£400

Hence, generally, the accounts between a banker and his customers may be stated thus—

	$\overline{+}$			$\underline{+}$	
Deposits		£49,600	Cash		£9,600
			Bills		40,000
					£49,000
			Balance		£400

where the upper or lower signs are to be taken according as they are regarded from the banker's or the customers' point of view

The fact is, that every Obligation bears the double sign $\underline{+}$: and these opposite signs do not cancel each other, as many suppose : but the Obligation is a saleable and exchangeable Quantity as long as it exists : and until it is paid off and extinguished

On the **Scotch System** *of* **Banking**

16. The Credit created by Bankers in the operations we have been describing, was employed to buy Commercial Bills, which arise out of the *Transfer* of commodities : and it has been seen that they could create Credit to several times the amount of Cash in their possession. And some writers imagine that this is the limit of legitimate Credit. We have now to describe a species of Credit of a totally different species, invented in Scotland, and to which the marvellous progress of that country is mainly due. It is Credit created, not for the purpose of transferring commodities already in existence ; but for the express purpose of calling **New** products into existence. It is entirely of the nature of **Accommodation Paper :** and it will show decisively that there is nothing in the nature of Accommodation Paper more dangerous

or objectionable than Real Paper: but that, on the contrary, they stand on exactly the same footing of security: and also that Credit is equally applicable to call **new** products into existence as to **Transfer** those already existing

When, after a long period of inactivity, the energies of a people are suddenly turned into an industrial direction, they find innumerable enterprises which would be profitable if only they possessed the means of setting them a-going. The quantity of money which was sufficient for a non-industrial people is now found to be wholly inadequate to the increased demand for it: and the only consequence can be, that if there is a greatly increased demand for the existing quantity of money, the Rate of Interest will rise proportionally, and to such an extent as to preclude all possibility of profit from such enterprises even if effected

It is, therefore, invariably found that whenever this takes place, multitudes of schemes are set afloat for increasing the quantity of money

For many centuries after the Conquest, England was essentially a feudal and military nation. Its Law also was almost entirely feudal, and related to the tenure of land. Merchants and commerce were held in very subordinate esteem, and Commercial Law had no existence. In the sixteenth century the energies of the nation were absorbed in religious controversies; and in the first half of the next century in politics. At length, in the reign of Charles II., men, weary of polemics and politics, began to devote themselves more to industry and commerce: and this was greatly stimulated by the manifest advantages of banking which had just been introduced into England

Among fields of enterprise at that period, none seemed more promising than agriculture. But, unfortunately, all the available specie was absorbed in commerce: none was to be had for agriculture; or, at least, only at such rates as to be practically prohibitory

In no species of industry are the profits so moderate as in agriculture. Hence, if Capital has to be borrowed to effect improvements in agriculture, it is requisite that it should be at a very low rate of interest. The usual rate of interest in Charles

II.'s reign was ten per cent., and few improvements in agriculture could bear that rate

It was this real want which gave rise to the schemes of Asgill, Briscoe, Chamberlen, Law, and others, for the purpose of turning the Land into Money, which were so rife at this period : and which are described in a subsequent chapter

One of these schemes was attempted to be carried out in 1696. The Ministry of William III. was not, as is now the case, formed exclusively of one party in the State : it was a partly Whig and partly Tory. In 1694, the Whig portion of the Ministry succeeded in founding the Bank of England, which, besides assisting the Government in the war with France, was specially intended to benefit commerce

The immense benefit of the Bank of England was so evident that the Tory portion of the Ministry endeavoured to found a Bank which should also assist the Government, and be specially for the benefit of agriculture. It was attempted to be founded in 1696 ; and was called the Land Bank. But the attempt did not succeed : and its failure was one of the causes which produced the stoppage of the Bank in 1697. There were, no doubt, defects in the scheme which fully accounted for its failure : but the want was very real : and the idea was perfectly sound

Among the projectors of basing Paper Money on land, the most celebrated was John Law : and he laid a scheme before the Scotch Parliament in 1705 : which they, fortunately, rejected : it was carried out in France, in 1721, under the name of the Mississippi scheme

This is not the place to give an account of Law's scheme, which is done in a future chapter : but, ten years after its failure in France, the Scotch banks, by the admirable invention of Cash Credits, pushed Credit to the utmost extent of its legitimate limits, and realised all that was practicable in the schemes of Asgill, Briscoe, Chamberlen, and Law. And it is to these Cash Credits that the principal progress of Scotland in agriculture and all public works is due

Moreover, after the end of the seven years' war, in 1756, an ingenious merchant devised a scheme for Land Banks, in Germany; and it is to these Land Banks that the principal part of the progress of agriculture in Central Europe is due

On Cash Credits

17. The Bank of Scotland was founded in 1695, with powers of unlimited issue, both in amount and denomination. At first it only issued Notes of £100, £50, £10, and £5. Though several times advised to do so, they did not, at first, issue £1 notes : but, in 1704, they began to do so. The bank received a monopoly of banking for 21 years : and, in 1727, after the expiry of the monopoly, the proprietors of the Equivalent Fund were endowed by Royal Charter with the powers of Banking, and they assumed the name of the Royal Bank

In the very contracted sphere of commerce in Scotland at that time there were not sufficient Commercial Bills in circulation to exhaust the Credit of the banks : they had, as it were, a superfluity of Credit on hand : and the new bank devised a new scheme for getting its Credit into circulation

It agreed, on receiving sufficient guarantees, to open Credits to certain limited amounts in favour of respectable and trustworthy persons

A Cash Credit is, therefore, a Drawing Account created in favour of a customer, upon which he may operate precisely in the same manner as an ordinary account : the only difference being that instead of receiving interest on the daily balance at his Credit, he pays interest on the daily balance at his Debit. It is, therefore, merely an **Inverse** drawing account

Cash Credits are applicable to a totally different class of transactions to those which give rise to Bills of Exchange : one difference being that Bills of Exchange arise out of the transfer of commodities, and are payable in one sum at a fixed date : while Cash Credits are not issued on the transfer of commodities : or on any previous transactions : and are not repayable in one sum at a fixed date : but are a continuous working account

All advances on Cash Credits are made exclusively in the bank's own notes

18. In order to understand clearly the principles of the system, it is only necessary to recur to our fundamental definition, or concept : because a true fundamental definition, or concept, is the polestar to guide us through all difficulties and perplexities

It has been shown in the preceding chapters that the true definition of **Credit** is the "**Present Right**, or the **Present Value**, of a **Future Profit**:" and every future Profit, from whatever source arising, or of whatsoever nature, has a **Present Value**, which may be brought into commerce, and may be bought and sold like any material chattel

It has been shown that the Land is an Economic Quantity, which produces a continuous series of Profits : and that a Trader exercising any profitable business is an Economic Quantity analogous to land, as he produces a continuous series of profits

We have explained the system of Mercantile Credit : and shown that its true limits are the future profits : that all Credit is sound which is redeemed by the future profits : and that Mercantile Banking consists in buying the Present Values of these Future Profits

Now, having argued from the Land to Commerce, let us reverse the case, and argue from Commerce to Land

If every future Commercial Profit has a Present Value, which can be brought into Commerce and exchanged, the same is equally true of the Land. The Present Value of every future profit from the Land may be equally brought into Commerce and exchanged. And if the Credit be strictly limited to the future Profits of the Land, Credit may, under certain conditions, be created in anticipation of the future Profits from the Land, as safely as in anticipation of the future Profits from Commerce

Cash Crédits are are applied in two different ways : (1). To aid private persons in different ways : (2). To promote agriculture and all public works

Cash Credits *granted in aid of* Persons

19. Every man in business, however humble, or however extensive, must necessarily keep a certain portion of ready money by him, to answer immediate demands for small daily expenses, wages, and other things. This could, of course, be much more profitably employed in his business, where it might produce a profit of fifteen to twenty per cent., instead of lying idle. But, unless the trader knew that he could command it at a moment's notice, he would always be obliged to keep a certain portion of

ready money in his own till, or he must be able to command the use of some one's else till. Now, one object of a Cash Credit is to supply this convenience to the trader, to enable him to invest the whole of his Capital in business, and, upon proper security being given, to furnish him with the accommodation of a till at a moment's notice, in such small sums as he may require, on his paying a moderate interest for the accommodation

Almost every young man commencing business in Scotland, does it by means of a Cash Credit. Thus, for instance, lawyers, or writers to the signet, commencing business, have occasion for ready money from day to day, before they can get in payments from their clients. It is a great bar to any young man to commence the business of a solicitor without Capital, which must either be his own, or furnished him by his friends. It is an immense advantage to him and to them to have it supplied by a bank, on a guarantee, a mere contingency, which they never would give if they thought there was any danger of its being enforced

These Credits are granted to all classes of society, to the poor as freely as to the rich. Everything depends upon character. Young men in the humblest walks of life begin by making a trifle for themselves. This inspires their friends with confidence in their steadiness and judgment, and they become sureties for them on a Cash Credit. This is, in all respects, of equal value to them as money, and thus they have the means placed within their reach of rising to any extent that their abilities and industry permit them. It is an undoubted fact, that multitudes of men who have raised themselves to enormous wealth began life with nothing but a Cash Credit. As one example among thousands, Mr. Monteith, M.P., told the Committee of the House of Commons, in 1826, that he was a manufacturer employing, at that time, four thousand hands, and that except with the merest trifle of Capital lent to him, and which he very soon paid off, he began the world with nothing but a Cash Credit !

The banks usually limit their advances to a certain moderate amount, varying from £100 to £1,000 in general, and they always take several sureties in each case—never less than two—and frequently many more, to cover any possible losses that might arise. These cautioners, as they are termed in Scotch law, keep a watch-

ful eye on the proceedings of the customer, and have always the right of inspecting his account with the bank, and of stopping it at any time, if irregular. These Credits are not meant to degenerate into dead loans, but they are required to be constantly operated upon, by paying in and drawing out

The enormous amount of transactions carried on by this kind of accounts may be judged of by the evidence given before the Committee of the Commons, in 1826. It was then stated that on a Credit of £1,000, operations to the extent of £50,000 took place in a single week. Its effects, therefore, were exactly the same as if there had been 1,000 sovereigns. Others stated that, on a Cash Credit of £500, operations to the amount of £70,000 took place in a year. One witness stated that, during twenty-one years in a very moderately-sized country bank, operations had taken place to the amount of nearly £90,000,000, and that there had never been but one loss of £200 on one account, and that the whole loss of the bank during that period did not exceed £1,200. Now, the whole of these gigantic operations were transacted by creations of pure Credit. At that time it was conjectured that there were about twelve thousand Cash Credits guaranteed to persons in Scotland, and that there were about forty thousand persons as sureties, who were interested in the integrity, prudence, and success of the others. The witnesses before the Lords declared that the effects of these were most remarkable on the morals of the people

On **Cash Credits** *granted to promote* **Agriculture,** *and the Formation of* **Public Works**

20. Every one having access to the *arcana* of the different banks must be aware of countless numbers of persons whose rise in life has been entirely due to the system of Cash Credits. But we have now to consider their effects, as more visible to the public eye—the way in which they have been applied to promote **Agriculture,** and the formation of all **Public Works**

When, about the middle of the eighteenth century, the energies of the Scotch were first directed to agricultural industry and commerce, there were, in every part of Scotland, large tracts of reclaimable land, and abundance of people, but they remained

unemployed, because there was no Money to set their industry in motion

Now, suppose that a proprietor of some of these tracts of land had had £10,000 in money : and that he had employed it in paying wages to labourers to reclaim the land, buying seed to sow: then, in course of time, the value of the produce of the land would replace the money expended in bringing the land into cultivation, with a profit. Then the money so employed would have been used as **Capital**

But at that time there was, comparatively speaking, no money in the country : but the Banks, having by this time habituated the people to receive their £1 Notes in all respects as money, threw out branches in all directions, and sent down boxes of their £1 Notes

Farmers, at that time, had no votes in Scotland : consequently, the landlords had no motives to keep their tenants in political dependence, as was too much the case in England. They adopted the best means possible to develope the resources of the soil. And as it was not to be expected that farmers should lay out their industry and capital without security of tenure, it became almost universal in Scotland for the tenants to receive nineteen years leases ; and, in many cases, much longer than that. Upon the security of these leases, and also upon that of personal friends, the Banks granted Cash Credits to the farmers : the advances being made entirely in their own £1 Notes. From the strong constitution of the Banks their Notes were universally received as Cash : and though they were demandable in Cash at the Head Office, no one ever dreamt of demanding payment of them. With these £1 Notes the farmers employed the labourers in reclaiming the land, and sowed the crops. The notes were employed in exactly the same way as money would have been : and they produced exactly the same effects as money would have done. The land was reclaimed and sown and stocked : and, in a few years, bleak and barren moors were everywhere changed into fields of waving corn: and they produced a continuous series of profits. With the value of the produce the farmers gradually repaid the loans, and reaped a profit

Now if it be admitted that Money expended in agricultural improvements is Productive Capital, it must be equally admitted

that Credit employed in the same way, which produces the same effects as Money, is also Productive Capital. The only difference being that in using **Money**, the employer makes **Capital** of the **Accumulated Profits** of the **Past**: in using **Credit**, he makes **Capital** of the **Anticipated Profits** of the **Future**

Every one acquainted with Scotland knows that the prodigious progress in agriculture made during the last 130 years, has been almost entirely effected by means of these Cash Credits

21. Not only has almost the entire progress in agriculture been effected by these Cash Credits, but all public works, of every description—Roads, Canals, Docks, Harbours, Railways, Public Buildings, &c., have also been made by means of these Cash Credits. It was stated to the Committee of the House of Commons, in 1826, that the Forth and Clyde Canal was executed by means of a Cash Credit of £40,000, granted by the Royal Bank. So, Docks, Harbours, Railways, &c., are all made exactly in the same way. When the Directors have got their Act they obtain a Cash Credit at a bank which supplies the necessary funds in its own £1 Notes: and the debt is paid off by the profits of the work

22. It is thus seen how Credit is applied to the formation of **New** products equally well as to the **Transfer** of existing ones. Credit is Purchasing Power equally as Money: and it may be applied to the purchase of **Labour** to form **New** products equally as well as to Transfer existing ones. The principle of the Limit, however, is exactly the same in both cases: namely, the **Present Value** of the **Future Product**

Thus it is seen that Credit may be used as Productive Capital exactly in the same way and in the same sense that Money is

All these marvellous results, which have raised Scotland from the lowest depths of barbarism up to her present proud position, in the space of 170 years, are the children of pure **Credit.** It is no exaggeration, but a melancholy truth, that, at the period of the revolution, in 1688, and the establishment of the Bank of Scotland, that country, partly owing to such a series of disasters as cannot be paralleled in the history of any other independent

nation ; and partly owing to its position at the very outskirts of civilisation, and far removed from the humanising influences of commerce ; divided into two nations, aliens in blood and language, was the most utterly barbarous and lawless country in Europe. And it is equally undeniable that the two great causes of her rapid rise in civilisation and wealth have been her systems of National Education and Banking

Her system of Banking has been of infinitely greater service to her than mines of gold and silver. Her banking system has tended immensely to call forth every manly virtue : mines of the precious metals would, probably, have demoralised her people. In the **Character** of her own people, in their steadiness, their industry, and their honour, Scotland has found **Wealth** infinitely more beneficial to her than all the mines of Mexico and Peru

The express purpose of these banks was to create **Credit,** Incorporeal entities, created out of **Nothing,** for a transitory existence : and when they had performed their functions, vanishing again into the **Nothing** from whence they sprang. And has not this **Credit** been **Capital**? Will any one, with these results staring the world in the face, believe that it is maintained by writers who are still supposed to be Economists, that the effects of Credit are purely imaginary! That Credit conduces nothing to Production, and the increase of Wealth ! That Credit only transfers existing Capital. But even if it did no more than that, it has been shown that **Circulation,** or **Transfer,** is admitted by all Economists to be one form of **Production.** And that those persons who say that Credit is Capital, are such puzzle-headed dolts as to think that the same thing can be in two places at once !

Now, it must be carefully observed, that all these Cash Credits are for a distinct purpose, quite different from the discount of Commercial Paper. The marvellous results they have produced are due to **Accommodation Paper.** They are not founded upon any previous transaction : nor upon the transfer of existing commodities. They are created for the express purpose of forming **New** products, which, but for them, would either have had no existence at all : or, at all events, would have been deferred for a very long period, until solid money could have been accumulated

to produce them. The invention of Cash Credits has advanced the wealth of Scotland by centuries. Thus we have an enormous mass of Exchangeable Property created out of **Nothing** by the mere will of the bank and its customers, which produces all the solid effects of gold and silver : and, when it has done its work, it vanishes again into **Nothing**, at the will of the same persons who called it into existence. Hence we see that the mere will of man has created vast masses of **Wealth** out of **Nothing** : and then, having served their purpose, they were **Decreated** into **Nothing** : which are—

" Melted into air, into thin air "

But their solid results have by no means faded—

" Like the baseless fabric of a vision,
Leaving not a wreck behind "

On the contrary, their solid results have been vast tracts of barren moor converted into fields of waving corn ; the manufactures of Glasgow, Dundee, and Paisley ; the unrivaled steamships of the Clyde ; great public works, of all sorts ; roads ; canals ; bridges ; harbours ; docks ; railroads : and poor young men converted into princely merchants

What the Nile is to Egypt that has her Banking system been to Scotland : and it was fortunate for her that the foundations of her prosperity were laid broad and deep before the gigantic fallacy was dreamt of that the Issues of Banks should be inexorably restricted to the amount of gold they displace : that no increase of money can be of any use to a country : and before Mill had proclaimed to the world that to create Credit in excess of Specie is robbery !

On Banks of **Credit Fongier** : *or* **Land Banks**

23. At the close of the seven years' war, in 1756, the proprietors in Silesia found themselves in a state of inextricable embarrassment. The ruin and destruction caused by the war, and the low price of corn, caused by the general distress, made them unable to meet their engagements. Interest and commission rose to thirteen per cent. They obtained a respite of three years to pay their debts. To alleviate the distress arising out of this

state of matters, a Berlin merchant, named Büring, invented a system of Land Credit, which has been very extensively adopted in Germany, Russia, Poland, and, lastly, in France

Proprietors of land can, no doubt, borrow money on mortgage: but, in every country, such transactions are attended with many inconveniences. They have many expensive formalities to undergo, such as investigation of title, &c. Moreover, the difficulties and expense of transfer are usually very great; as each purchaser has to undergo the same labour and expense. If the debtor fails to pay, the process of obtaining redress, or possession of the land, is usually very troublesome and expensive. The consequence of all these obstacles is, of course, to raise greatly the terms on which money can be borrowed on mortgage

The system of Government Funds suggested to Büring the idea of creating a similar species of Land Stock. The Government could usually borrow much cheaper than the landlords, because the title was sure and indisputable, and there was no impediment to the negotiability of their Debts

Büring, therefore, conceived the idea of substituting the joint guarantee of all the proprietors for that of individuals: and establishing a book in which this Land Stock should be registered, and be made transferable: and the dividends paid exactly in the same way as in the Public Funds. The Credit of the Association was, therefore, always interposed between the lenders and the borrowers. Those who bought the Stock looked only to the Association for the payment of their dividends; and the borrowers paid all interest to the Association, which took upon itself all questions of title and security. The whole of these Obligations are turned into Stock, transferable, in all respects, like the Public Funds. Such is the general design of these Associations: they avoid the rock of creating Paper Money: while they greatly facilitate the application of Capital to the land. They, in fact, do nothing more than turn Mortgages into Stock

These Associations are divided into two classes. The first are private Associations: and these again are divided into Companies formed by borrowers: and those formed by lenders. The second are founded by the State, or the provincial authorities

The system was introduced into Silesia in 1770; the March of Brandenburg in 1777; Pomerania in 1781; Hamburgh in 1782;

West Prussia in 1787 ; East Prussia in 1788; Luneburg in 1791; Esthonia and Livonia in 1803 ; Schleswick Holstein in 1811 ; Mecklenburg in 1818 ; Posen in 1822 ; Poland in 1825 ; Kalonberg, Grubenhagen, and Hildesheim in 1826 ; Wurtemberg in 1827 ; Hesse Cassel in 1832 ; Westphalia in 1835 ; Gallicia in 1841 ; Hanover in 1842 ; Saxony in 1844 : and France in 1852

The fullest information respecting these banks is to be found in a work by M. Josseau, from which these details are taken, and to which we may refer the reader who wants full information on the different constitutions of these Associations

All these Land Banks make advances to about one-half the value of the land, in small bonds, chiefly varying from £5 to £100, bearing interest from three-and-a-half to four per cent. transferable by indorsement or delivery : together with a small sum to form a sinking fund to redeem the principal, and defray the expenses of management

The holder of the bonds has, as security for their payment, the whole Capital of the Company, and the lands specially mortgaged to them

The borrowers may pay either in money, or in the bonds of the Company, which they may purchase from the public : thus exhibiting another example of the universal doctrine that the Release of a Debt is equivalent to a Payment in Money

These institutions have had the most marvelous effects in developing the agriculture of the countries in which they have been formed : exactly similar to the effects of Cash Credits in Scotland

Their Obligations have maintained through all crises—monetary, war, and revolutionary—a steadiness of value far beyond any other public securities whatever, either Government or Commercial. Josseau says, that in a population of 27,827,990, the negotiable *Lettres de Gage*, or *Pfandbriefe*, amounted to 540,423,158 francs. In the revolutionary period of 1848, while the Prussian funds fell to 69 : the shares of the Bank of Prussia to 63 : and the shares in Railroads 30 to 90 per cent. : the Land Bank bonds, producing 3½ per cent. interest, stood at 93 in Silesia and Pomerania ; at 83 in West Prussia ; and at 96 in East Prussia

On the Economical Effects *of* Banking

24. Having now given an exposition of the actual mechanism of banking, we can observe its Economical effects

We observe, that the business of banking is to build up a superstructure of Credit several times exceeding the basis of bullion : and this Credit is intended to circulate and produce all the effects of money

And every one who has understood the mechanism of banking, has seen that it practically augments the Capital of the country. Thus, John Law says, that the Bank of Scotland, on a basis of £10,000 in money, were able to maintain £50,000 of their notes in circulation ; which, he says, was in effect so much additional money to the country. He also says—"The introduction of Credit, by means of a bank, augments the quantity of money more in one year than a prosperous commerce would do in ten"

So, Bishop Berkeley, after proposing many wise queries on Money and Credit, says that a bank is a gold mine, and asks whether it be not the true philosopher's stone ?

So, Alexander Hamilton, the eminent financier of the United States, when called upon to present a report on the expediency of establishing a National Bank, says—

"The following are among the principal advantages of a Bank : —

"*First :* the **Augmentation** of the active or productive capital of a country. . . . . It is a well-established fact that banks in good credit can circulate a far greater sum than the actual quantum of their Capital in gold and silver. . . . . This faculty is produced in various ways—

"(1) A great portion of the notes which are issued and pass current as cash are indefinitely suspended in circulation, from the confidence which each holder has that he can, at any moment, turn them into gold and silver

"(2) Every loan which a bank makes is, in its first shape, a Credit given to the borrower on its books, the amount of which it stands ready to pay, either in its own notes, or gold or silver, at his option. But, in a great number of cases, no actual payment is made in either. . . . . The same circumstances illustrate the truth of the position that it is one of the properties of banks to

increase the active Capital of a country. This additional employment given to money, and the faculty of a bank to lend and circulate a greater sum than the amount of coin, are to all the purposes of trade and industry an *absolute* **Increase of Capital.** Purchases, and undertakings in general, can be carried on by means of Bank Paper, or Credit, as effectually as by an equal sum of gold and silver. And thus, by contributing to enlarge the mass of industrious and commercial enterprises, banks become nurseries of national wealth,—a consequence as satisfactorily verified by experience as it is clearly deducible in theory"

So, J. B. Say says—"If Bills of Credit could replace completely metallic money, it is evident that a Bank of Circulation veritably augments the sum of National Wealth, because, in this case, the metallic wealth, becoming superfluous as an agent of circulation, and nevertheless preserving its own value, becomes disposable, and can serve other purposes. But how does this substitution take place? What are its limits? What classes of society make their profit of this interest of the *new fund added to the Capital of the nation?*

"According as a bank issues its notes, and the public consents to receive them on the same footing as metallic money, the number of monetary units increases

"If, suppose, it issues one hundred millions of notes, it will withdraw, perhaps, forty millions in specie, which it will put in reserve to meet the payments which may be demanded of it. Therefore, if it adds to the quantity of money in circulation, and if it withdraws forty millions from circulation, it is as if it added only sixty millions

"We now wish to learn what class of society enjoys the use of this **New Capital**"

Say then goes on to explain how this **New Capital** is employed, and who reaps the profit of it

Thus, it is seen, that all these writers, and many more might be cited if necessary, recognise the fact that banking **augments** the Capital of the country

Gilbart, also, says—"Bankers also employ their own **Credit** as **Capital.** They issue Notes promising to pay the bearer on demand. As long as the public are willing to take these Notes as gold, they produce the same effects. The banker who makes

advances to the agriculturist, the manufacturer, or the merchant, in his own notes, stimulates as much the productive powers of the country, and provides employment for as many labourers, as if, by means of the philosopher's stone, *he had created an equal amount of solid gold.* It is this feature of our banking system that has been most frequently assailed. It has been called a system of fictitious Credit—a raising the wind—a system of bubbles. Call it what you please, we will not quarrel with names : but by whatever name you please to call it, it is a powerful instrument of production. If it be a fictitious system, its effects are not fictitious : for it leads to the feeding, the clothing, and the employing of a numerous population. If it be a raising the wind, it is the wind of commerce, that bears to distant markets the produce of our soil, and wafts to our shores the productions of every climate. If it be a system of bubbles, they are bubbles which, like those of steam, move the mighty engines that promote a nation's greatness and a nation's wealth "

Not many persons are aware, probably, of the immense consequences produced by Banking. We have shown, elsewhere, that in countries where there is no Credit, and advances are made in actual money, the usual rate of interest varies from eighteen to thirty-six per cent. When the London goldsmiths took to banking, the ordinary rate of interest was ten per cent. But when the bankers found that they could maintain a large amount of their Credit in circulation, which served the purposes of money, they found, as it were, that their resources were *multiplied :* and, consequently, they began to bid against each other : and, in a very short time, the average rate of interest was reduced from ten to three per cent. When the Bank of England was founded, Exchequer Bills and other Government Securities, were at a discount of about forty per cent. In a very short time the Bank brought down the rate of Government Securities to three per cent., at about which they have remained ever since

One of the consequences of this was to triple the value of Land : which depends chiefly on the current average rate of interest. When the rate of interest, in the time of Charles II., was ten per cent., the land was worth only ten years' purchase : but now that the current rate of interest is reduced to three per cent., the common value of land is about thirty years' purchase

It has been calculated by an eminent authority that the amount of Banking Credits, or Deposits, in all the banks of the country, is about £800,000,000, while the cash held in reserve is, probably, not more than £80,000,000—if so much. These Banking Credits are, for all practical purposes, the current coin of Commerce. They affect prices, and have all the practical effects of so much gold

If it were possible to trace the effects of Banking through all their ramifications, which would not be suitable for this work, it would be clearly seen how true is the saying of the great American Jurist and Statesman, Daniel Webster—"Credit has done more, a thousand times, to enrich nations, than all the mines of all the world"

Contrast *between the* Common Notions about Banking, *and the* Reality

25. Having now given an exposition of the actual facts and mechanism of Banking, it will be as well to contrast the Common Notions respecting it with the **Reality**

I. It is commonly supposed that Bankers are dealers only in Money

The fact is, that Bankers are dealers in **Credit**

II. It is commonly supposed that Bankers act only as intermediaries between persons who want to lend and those who want to borrow

The fact is, that a Banker is a Trader, whose business is to buy **Money** and **Debts**, by creating other **Debts**

III. It is commonly supposed that a Banker's profit consists in the Difference between the interest he pays for the Money he borrows, and the interest he charges for the Money he lends

The fact is, that a Banker's profits consist exclusively in the profits he can make by creating and issuing Credit in excess of the specie he holds in reserve

A bank which issues Credit only in exchange for Money, never made, and can by no possibility make, profits. It only begins to make profits when it creates and issues Credit in exchange for Debts payable at a future time: which, according to Mill, is robbery!

How **Credit** *is* **Capital** *to a Banker*

26. It is now seen how **Credit** is **Capital** to a Banker For what is the Commodity a banker deals in ? He opens his place of business, and has an array of clerks, with their desks, ledgers, &c. He then gives notice that he is ready to buy gold from any one who has it to sell. And what does he buy the gold with ? His own **Credit.** He then gives notice that he is ready to buy any good Commercial Debts that any one has got to sell. And what does he buy them with ? Nothing but his own **Credit.** And he charges exactly the same price for his Credit as if it were Money. The only Commodity, then, which he has to sell is his own **Credit.** And he makes a Profit by selling his Credit, exactly as any other trader makes Profits by selling the goods he deals in. Therefore, by the very definition, we have shown that all Economists are agreed in, a banker's **Credit** is his **Capital.** It is the Commodity he deals in, and by which he makes a Profit. He has no other means of making a Profit than by selling his **Credit :** and just by so much as he can maintain his Credit in circulation over and above the Cash he keeps in reserve, he increases his Profit, and he practically increases the Capital of the country

Again, what are the Commodities which a "banker" buys to make a Profit of ? They are Commercial Debts. Now, in the former chapters it has been shown, over and over again, that all Jurists term Debts—Merchandise, Goods and Chattels, Vendible Commodities. Adam Smith expressly classes Bills of Exchange under the term Circulating Capital : and under the term Circulating Capital he classes all the goods in a shop which the trader makes a Profit of by selling. Now the Bills in the portfolio of a banker are exactly similar to the ordinary goods in the shop of a trader. A trader makes profits by buying goods at a lower price from one person, and selling them at a higher price to another. So a "banker" buys a Commercial Debt at a lower price from one person—namely, his own customer—and sells it at a higher price to another—namely, to the acceptor, or debtor. Thus the Debt the banker buys is increasing in Value every day from the time he buys it until it is paid off. It, therefore, produces a Profit, and is, therefore, Circulating Capital, just in the same way, and

for the same reason, that the ordinary goods in any trader's shop are

On Accommodation Bills

27. We must now examine a species of Credit which requires great attention, because it is the curse and the bane of commerce; and it has been the great cause of those frightful commercial crises which seem periodically to recur: and yet, though there can be no doubt that it is, in many cases, essentially fraudulent, yet it is of so subtle a nature as to defy all powers of legislation to cope with it

We have shown, by the exposition of the system of Cash Credits, that there is nothing essentially dangerous and fraudulent in creating a Credit for the purpose of promoting future operations. On the contrary, such Credits have been one of the most powerful methods ever devised by the ingenuity of man to promote the prosperity of the country. A certain species of this Credit, however, having been grossly misused for fraudulent purposes, and having produced great calamities, we must now examine wherein the fraud and the danger of this particular form of Credit consist

When a Bill of Exchange is given in exchange for goods actually purchased at the time, it is called a Real Bill, and it is often supposed that there is something essentially safe in it, because, as the goods have been received for it, it is supposed that they are always ready to provide for the payment of it: and that only so much Credit is created as there are goods to redeem it

This, however, is a very great error, and it is manifest from the description of the system of Credit already given, that it is quite erroneous to suppose that the quantity of Credit can only equal in amount the goods bought. A bill, it is true, only arises out of the transfer of goods: but then a fresh bill is created at each transfer. In the ordinary course of business, there will always be, in general, at least *twice* as many bills created as there are goods. If twenty transfers took place, twenty bills must be created. And it is only the last holder of the goods who would have them, and be enabled to devote the proceeds to the payment of the last bill only. The other nineteen bills must evidently depend upon other sources of payment

The security, therefore, which is supposed to reside in real bills, on account of their being founded on the transfer of goods, is shown to be, to a great extent, deceptive. Let us suppose, however, that A. sees that a profitable transaction may be done. The Bank, however, will not, as traders do, make him an advance on his own name alone. It must have *two* names. A. therefore goes to B., and gets him to accept a bill for his accommodation, and this bill may be taken to the bank to be discounted like any other bill: goods may be bought with the proceeds: and if the transaction is successful, the bill will be redeemed in due course

Stated, therefore, in this way, there is nothing more objectionable in such an Accommodation bill than in any Real bill. The security is exactly the same in the one case as in the other. In the one case, goods *have been* purchased which will pay the bill: in the other case, goods *are to be* purchased, whose proceeds will pay the bill. In fact, we may say, that all Commercial Credit is of this nature, because, in this case, a Credit is created to purchase the goods whose proceeds are to pay it

There is, therefore, clearly nothing in the nature of this species of paper worse than the other, and, when carefully used, nothing more dangerous. Cash Credits, which have been one of the most profitable and safest parts of Scotch banking, and have done so much for the prosperity of the country, are all of this nature. They are created, as we have seen, for the express purpose of stimulating future operations, out of which the Credit is to be redeemed. There is, therefore, nothing more atrocious, criminal, and vicious in one system than in the other: or, if there is, it must lie in the difference between *have been* and *is to be*

Nevertheless, as it is indubitably certain that most of those terrible commercial crises, which have so frequently convulsed the nation, have sprung out of this species of paper, it does merit a very considerable portion of the obloquy and vituperation heaped upon it. It is, therefore, now our duty to investigate the method in which it is applied, and to point out wherein its true danger consists

The security supposed to reside in Real bills as such, is, as we have seen, exaggerated. But there is, at least, this in them, that as they only arise out of real transfers of goods, their number must be limited by the nature of things. However bad and

worthless they may be individually, they cannot be multiplied beyond a certain limit. There is, therefore, a limit to the calamities they cause. But we shall show that with Accommodation Paper the limits of disaster are immensely and indefinitely extended, frequently involving in utter ruin all who are brought within their vortex

Explanation of the **Real Danger** *of* **Accommodation Bills.** (*Quoted by Mr. Commissioner Holroyd, in his judgment in re Lawrence, Mortimer, and Schrader.*—"Standard," March 7, 1861)

28. We must now explain wherein the difference between Real and Accommodation Paper consists, and wherein the true danger lies

Suppose that a manufacturer or wholesale dealer has sold goods to ten customers, and received ten *bonâ fide* trade bills for them. He discounts these ten bills with his banker. The ten acceptors of the bills, having received value for them, are the principal debtors to the bank; and are bound to meet them at maturity, under the penalty of commercial ruin. The bank has not only their names on the bills, but also that of its own customer as security. It moreover keeps a certain balance of its customer's in its hands, proportional to the amount of the discount allowed

Even under the best of circumstances an acceptor may fail to meet his bill. The banker debits his customer's account with the bill, and gives it to him back. If there should not be enough, the customer is called upon to pay the difference. If the worst comes to the worst, and its customer fails, the bank can pursue its legal remedy against the estates of both parties, without in any way affecting the position of the nine remaining acceptors, who, of course, are still bound to meet their own bills

In the case of Accommodation Bills there are very material differences. To the eye of the banker there is no visible difference between Real and Accommodation Bills. They are, nevertheless, very different: and it is in these differences that the danger consists

In Accommodation Bills, the person for whose accommodation the drawing, indorsing, or accepting is done, is bound to provide

the funds to meet the bill, or to indemnify the person who gives his name. In a Real bill the Acceptor is the principal Debtor, who is bound to meet the bill, and the Drawer is a mere surety. In the most usual form of Accommodation Paper, that of an Acceptance, the Drawer is the real principal Debtor, who has to provide funds to meet the bill : the Acceptor is a mere surety : and if he is called upon to meet the bill, he is entitled to sue the principal debtor for the amount

Now suppose, as before, A. gets ten of his friends to accommodate him with their names, and discounts these bills with his banker : it is A.'s duty to provide funds to meet every one of these bills at maturity. There is, in fact, only one real Principal Debtor, and ten sureties. Now these ten accommodation acceptors are ignorant of each other's proceedings. They only give their names on the express understanding that they are not to be called upon to meet their bills : and, accordingly, they make no provision to do so. If any one of them is called upon to meet his bill, he immediately has a legal remedy against the drawer. In the case of Real Bills, then, the bank would have ten persons who would each take care to meet his own engagements : in the case of accommodation paper, there is only one person to meet the engagements of ten

Furthermore, if one of ten real acceptors fails to meet his bill, the bank can safely press the drawer : but if the drawer of the accommodation bill fails to meet any one of the ten acceptances, and the bank suddenly discovers that it is an accommodation bill, and they are under large advances to the drawer, they dare not, for their own safety, press the acceptor, because he will, of course, have immediate recourse against his debtor ; and the whole will probably tumble down like a house of cards. Hence the chances of disaster are much greater when there is only one person to meet so many engagements, than when there are so many, each bound to meet his own

The real danger to a bank, then, in being led into discounting accommodation paper, is that the position of principal and surety is reversed. They are deceived as to who the real debtor is, and who the real surety is : being precisely the reverse to what they appear to be, which makes a very great difference in the security of the holder of the bills. To advance money by way of cash

credit, or loan with security, is quite a different affair : because the bank then knows exactly what it is doing : and as soon as anything occurs amiss, it knows the remedy to be adopted. Moreover, it never permits the advance to exceed a certain definite amount : but it never can tell to what length it may be inveigled into discounting accommodation paper, until some commercial reverse happens, when it may discover that its customer has been carrying on some great speculative operation with capital borrowed from it alone

On the Danger of Accommodation Paper to a Bank

29. We have now to explain how very much more dangerous this species of paper is to a bank than the worst calamities which can happen from real paper

We have already pointed out the very common error that Bills of Exchange are paid in money. Bills are very rarely paid in money : they are paid by discounting fresh bills. Thus, in ordinary times, previous Debts are always paid by creating new Debts. No doubt if the banker refuses to discount the customer must meet his bills in money : but then no trader expects to do that. He usually has a fixed discount limit ; and if he brings good bills, he has little less than an absolute right to have them discounted : and if the banker calls upon him to meet his bills in money, it might oblige him to sell goods at a great sacrifice, or might cause his ruin

However, it is always supposed that the bills discounted are good ones : that is, they could be paid in money, if required. Thus, though in common practice very few bills are really paid in money, it is manifest that the whole stability of the bank depends upon the last bills discounted being good ones

Now, suppose that for some time a customer brings good bills to his banker, and acquires a good character, and thus throws the banker off his guard. Owing, perhaps, to some temporary embarrassment, or wishing to push his speculations, he goes to some of his friends and gets them to accept bills without having any property to meet them. He then takes these accommodation bills to the banker. The banker buys them by giving him a credit in his books. In course of time these accommodation bills must be

met ; and the way he meets them is to create more similar bills. The drawer may be speculating in trade, and losing money every day, but his bills must be met : and there is no other way of doing it than by constantly creating fresh bills to meet the former ones. By this means the customer may extract indefinite sums from his banker, and give him, in exchange, so many pieces of paper. Now when discounts are low and times are prosperous, this system may go on for many years. But at last a crisis comes. The money market becomes " tight." Bankers not only raise the rate of discount, but they refuse to discount as freely as before : *they contract their issues.* The accommodation bills are in the bank, and must be met. But if the banker refuses to discount fresh bills, they must be met in money. But all the property which the speculators may have had may have been lost twenty times over : and so, when the crisis comes, they have nothing to convert into money. Then comes the crash. Directly the banker refuses to meet his customer's bills by means of his own money, he wakes to the pleasant discovery that, in return for the money he has paid, he has got so many pieces of paper !

This is the *rationale* of accommodation paper : and we see how entirely it differs from real paper. Because, with real paper and *bonâ fide* customers, though losses may come, yet directly the loss occurs, there is an end of it. But, with accommodation paper, the prospect of a loss is the very cause of a greater one being made : and so on, in an ever widening circle, until the canker may eat into the banker's assets to almost any amount

It is also clear that if a trader, having got a good character, may sometimes do so much mischief to a single banker, his capacity for mischief is vastly increased if, from a high position and old standing, he is able to discount with several banks : for then he is able to diminish greatly the chances of detection

30. In the case above mentioned, *Laurence, Mortimer & Co.* were of very high position and of old standing in the commercial world. They were leather and hide factors, and the house was of above fifty years' standing. They bought hides on commission for tanners, and sold leather, and had leather consigned to them for sale. The hides were paid for by the tanners' acceptances of the factors' drafts at four months. In the course of business they

got connected with a considerable number of houses which were in a state of insolvency. To support these houses, and to extend their own operations, they entered into an enormous system of Accommodation Paper. They were in the habit of advancing money to their customers at five per cent., and then discounting these bills at their bankers at three per cent., thus making two per cent. by the transaction. When their customers often lost the money, the bills were renewed, or new ones created of arbitrary amounts, to conceal the loss. The house had an agency in Liverpool, which pursued exactly the same course. They set up people ostensibly in business, for the purpose of drawing on them. And these "dummies" drew upon the house, and these cross acceptances were afloat to a large amount. This will be sufficient to give an idea of this complicated net-work of cross transactions between the house and its satellites. In the meantime heavy losses were sustained in their trade transactions, which were, in fact, extracted out of the bankers by the fraudulent concoction of bills among the losers. The high standing of the house enabled them to entangle no less than twenty-nine banks and discount houses in their meshes. At the time of the stoppage the London house had liabilities of £820,000, of which £620,000 consisted of these fraudulent bills. The Liverpool house had liabilities of £158,750, out of which £130,000 were fraudulent. Such is one example of the mischief worked by this nefarious system

A still more terrible example is the case of the Western Bank of Scotland, which is fully detailed in a subsequent chapter, which was in great part caused by the fraudulent proceedings of four houses. The cases there detailed show to what a gigantic length these proceedings were carried. The Macdonalds had bills discounted to the amount of £408,716, drawn upon one hundred and twenty-four acceptors, of whom at least seventy were men of straw, who made it a regular trade to accept bills for a small commission. In fact, they kept an agent in London for the express purpose of procuring accommodation acceptances

From these accommodation bills to forged bills there is but one step. It is but a thin line of division between drawing upon a man who is notoriously utterly unable to pay, and drawing upon a person who does not exist at all, or forging an acceptance. In practical morality, and in its practical effects, there is none.

Traders sometimes do not even take the trouble to get a beggar to write his name on their bills, but they invent one. The case of traders dealing with a number of small country connections affords facilities for such practices. They begin by establishing a good character for their bills. Their business gradually increases. Their connections gradually extend over all the Kingdom. The banker, satisfied with the regularity of the account, cannot take the trouble of sending down to inquire as to the acceptor of every bill. The circle gradually enlarges, until some fine morning the whole affair blows up. The ingenuity sometimes exercised by traders in carrying out such a system is absolutely marvelous

It is in times of speculation in great commodities that Accommodation Paper is particularly rife. In a great failure of the harvest, when large importations are required, and it is expected that prices will rise very high, every corn merchant wants to be able to purchase as much as possible. But if no sales have taken place, there can be no real trade bills. They, therefore, proceed to manufacture them in order to extract funds from bankers to speculate with. No banker in his senses would actually advance money for them to speculate with, with his eyes open. Nevertheless, they must have the funds from the bankers, and this they do by means of cross acceptances, which they go and discount with their bankers. They then, perhaps, buy a certain amount of corn, or any other goods, and many bankers will discount their bills, with the collateral security of the bill of lading. And this they may repeat many times over, till the quantity of Credit created is something astonishing. In the Crimean war there was a great demand for shipping, and there was an enormous amount of accommodation bills manufactured by the Liverpool shipowners, and discounted all over the kingdom. The results were frightfully disastrous

The insurmountable objection, therefore, to this species of Paper, is the dangerous and boundless facility it affords for raising money for speculative purposes. And there is much reason to fear that this pernicious system prevails to a much greater extent than is generally supposed. The Legislature has imposed bounds upon the issue of notes by banks, but there is much greater reason that some attempt should be made to curb the extravagant magnitude to which this detestable practice has been developed. The

Bank of England is strictly forbidden to issue a single £5 note of accommodation paper, and is it to be tolerated that any set of adventurers may set afloat many hundred thousand pounds worth of their accommodation paper ?

To deal, however, legislatively with fictitious paper, is the most perplexing commercial problem of the day. The difficulty consists in determining what is really an Accommodation Bill. An Accommodation Bill is defined to be a Bill to which the acceptor, drawer, or indorser, as the case may be, has put his name, *without consideration*, for the purpose of benefiting, or accommodating, some other party, who is to provide for the bill when due. But the whole difficulty turns upon the *consideration*. The consideration may be of many sorts, and does not by any means denote a sale of goods at the time. Moreover, a bill may be an Accommodation Bill at its creation, but if any consideration be given during the period of its currency, it ceases to be an Accommodation Bill

Moreover, the consideration may be of many sorts. If A. draws a bill upon B., who accepts it for A.'s accommodation, for the express purpose of enabling him to go to a bank and get money for it, that is a pure Accommodation Bill, and manifestly fraudulent. But if B. draws an exactly similar bill at the same time on A., and A. accepts it for the accommodation of B., then neither of the bills are Accommodation Bills

To an unlearned reader this may seem a very strange doctrine. It is, nevertheless, firmly-established law. In *Rolfe* v. *Caslon* (2 H. Black., 571), A. and B., being desirous to accommodate each other, each drew a bill upon the other, and accepted one in return, the two bills being precisely alike in the date, sum of money, and times of payment—neither party having any effects of the other in his hand. The Court were clearly of opinion that the two bills were mutual engagements, constituting on each part a Debt, the one being a consideration of the other. This doctrine was repeated and confirmed in *Cowley* v. *Dunlop* (7 T. R., 565), where Grose, J., said, the instant the bills were exchanged each was indebted to the other in the sum which was the amount of their respective acceptances, for the counter acceptances were a good consideration to found a Debt upon either side respectively. In the case of a single accommodation acceptance, said the learned judge, there is

no debt to the acceptor ; the Debt accrues only by payment of the money. The acceptor, *quâ acceptor*, can never be a creditor ; his acceptance imports the admission of a debt from him to another, and when he has paid as acceptor, if he paid for any other person in consequence of any request from that other, he becomes a creditor, not on the face of the bill, but by a contract collateral to the bill. When two persons exchange acceptances, each becomes the debtor of the other upon his accepted bills. But when a man accepts without consideration, he is never a creditor of the person from whom he accepts, till he pays ; from that payment arises the debt ; but when the acceptance was exchanged, the debt arises from these acceptances. This doctrine was repeated and confirmed in the subsequent cases—*Rose* v. *Sims* (1 B. & Ad., 521) ; and *Buckler* v. *Bultivant* (3 East, 72) ; when it was adopted by the whole Court of King's Bench

This doctrine shows how utterly hopeless it is to deal legislatively with Accommodation Paper. At least, they must be very poor rogues indeed who cannot manufacture any amount of real *bonâ fide* bills they please. Two ragamuffins, who neither possess one sixpence in the world, have only to get a quire of paper—if they can pay for it. One engages to pay £1,000 to the order of the other. That would be an Accommodation Bill. But the second then engages to pay £1,000 to the order of the first. These are no longer Accommodation Bills : but given for a *consideration*. If two such bills are good, then two thousand, or any larger number, are equally good. We suspect that bankers would look askance at such paper, but Westminster Hall declares them all to be good *bonâ fide* bills, given for a good *consideration*

Stated in the above form, no doubt the doctrine may appear somewhat startling to some ; but when we consider the principle, and not the accidental circumstance that the persons who may do it are insolvent, the difficulty disappears. For it is just what happens every day in banking. It is by no means unusual for the customer of a banker to ask him to discount his promissory note. If the banker does so, and gives him a Deposit, or Credit, or his own Notes, this is an exchange of securities. It is precisely the same in the other case. Supposing that the holders of these bills are enabled to purchase goods with them, they may be paid off at maturity : if they cannot do so, then the re-exchange of

the securities is the mutual payment of each debt, precisely in the same manner as when two bankers exchange notes ; or as when a merchant pays his own acceptance to a banker in the banker's notes. The two contracts are extinguished. However, we must defer saying more on this subject until we come to the CONSIDERATION of Bills of Exchange

On the **Transformation** *of* **Temporary Credit** *into* **Permanent Capital**

31. We shall now give an example of the application of the doctrine that the *Release of a Debt* is, in all cases, equivalent to a *Payment in Money*, which may surprise our readers, and of which we have not seen any notice elsewhere

When it is published to the world that the Bank of England has a paid-up Capital of £14,000,000, and that the various Joint Stock Banks have paid-up Capitals of a million and upwards, most persons take it for granted that these banks have these sums paid up in hard cash

Nevertheless, it is a profound error. Of course it is impossible for any stranger to have an accurate idea as to how much of these amounts was ever paid up in actual money : but it may probably be said with safety that not one half of these amounts was ever paid up in real money : and that at least one-half of these vast amounts of " Capital " was never anything more than the *Bank's own* **Credit** *turned into* **Capital**

To explain this, we may observe that the first subscription of the Bank of England was £1,200,000, paid, of course, in actual money. It was advanced to Government, and the Bank was allowed to issue an equal amount in Notes

In 1696 the bank stopped payment ; and its notes fell to a discount of 20 per cent. In 1697, Parliament undertook the restoration of Public Credit : and it was determined to increase the Capital of the Bank by £1,000,000. But none of this was paid up in actual money. Four-fifths were paid up in Exchequer Tallies, and one-fifth in the bank's own Notes. In pursuance of this Act, £800,000 were paid up in Exchequer Tallies, and £200,000 in the bank's own depreciated Notes, which were taken at their full value in cash. Thus, of its first increase of Capital,

£200,000 of the **Capital** consisted of its own **depreciated Notes.** And the bank was authorised to issue an amount of Notes equal to the increase of Capital. And at every subsequent increase of Capital, the subscribers might pay up in the bank's own Notes, or in money, whichever they pleased : and the effect was exactly the same : the amount was added to the Capital

The same thing was done in Scotland. In 1727, the Bank of Scotland increased its Capital. The subscription was paid up partly in the bank's own notes. An outcry was made against this, but the Directors justly answered—"But the objectors do not at all consider this point, for the payments are many of them made in specie : and Bank Notes are justly reckoned the same as specie when paid in on a call of Stock, because, *when paid in it lessens the Demand on the Bank*"

Here we see that the Directors clearly understood that the *Release of a Debt* is, in all respects, equivalent to the *Payment of Money.* The bank had issued its Notes, and were, of course, Debtors to the holders of them : these Debts were Negative Quantities : when the Call was made, the subscriber might either **Pay Money** or **Release** the bank from its **Debts.** At every increase of Capital the very same operation would be repeated : payment in Money and in the bank's own Notes would always be treated as exactly equivalent : and hence we see that at every fresh increase of Capital, a certain quantity of the bank's own **Temporary Credit** would be turned into **Permanent Capital**

Thus we see that the Parliament of England and the Directors of the Bank of Scotland, who were, probably, equally innocent of Algebra and Roman Law, simply from their own mercantile instinct treated the *Release of a Debt* as exactly equivalent to a *Payment in Money*

Banks, therefore, which issue Notes may increase their Capital by receiving their own Notes in payment. But banks which do not issue Notes may increase their Capital in exactly a similar way. For if the customer of the bank wishes to subscribe to the increase of Capital, he may give the bank a cheque on his account. This, of course, is equally a *Release from a Debt*, and an increase of Capital

If the customer has not sufficient on his account to pay for

the Stock he wishes to buy, he may bring the Bank Bills to discount. The Bank discounts these Bills by creating a Credit, or Debt, in his favour ; which is a Negative Quantity, exactly like a Bank Note. The customer then gives the bank a cheque on his account—that is, he releases the bank from the Debt it has created : and that Debt released, then becomes increase of Capital

This is the way in which the Capital of all Joint Stock Banks is increased, and it may go on to any extent without any payment in Money

In a precisely similar way, when great public loans are contracted for, a very large portion of them is always created by means of Credit. The customers of a Bank wish to subscribe to a loan. They bring it a batch of bills to discount. They draw cheques against the deposits created on the discount of these bills. These cheques may be paid into the credit of the great contractors, at their bankers, and transferred an indefinite number of times, without ever being required to be discharged in money ; they may, in fact, be discharged by being cancelled against other Credits

CHAPTER VII

THE THEORY OF BANKING DISCOUNT

1. Profits made by a Loan of Money are made in two ways—

(1) By advancing the complete sum, and waiting till the end of the year for the Profit. This is termed **Interest**

(2) By retaining the Profit at the time of the advance, and advancing the difference. This is termed **Discount**

But there are two ways of making Profit by Discount

1. According to the ordinary works on Algebra, the sum advanced should be such a sum as improved at the given interest should amount to the given sum at the end of the time

The sum so advanced is called the **Present Value** of the given sum

This species of Discount is used in certain branches of commerce: and it may be called **Algebraical Discount**

But this species of Discount is never used in Banking

2. In Banking the full sum charged as Profit is deducted, and the difference only is advanced: thus, if a Banker discounts a Bill at 5 per cent.: he gives his customer a Credit for £95, and receives £100 at the end of the year

The Profits made by Interest and Algebraical Discount are identical

But the Discount used in Banking is evidently more profitable than Interest and Algebraical Discount: because the Banker receives a profit of £5 on the advance of only £95 instead of £100

So long as the rates are low there is not much difference: but as these increase, the difference increases at a very rapid ratio: as may easily be seen

If a person lends £100 at 20 per cent. Interest, he advances £100, and at the end of the year he receives £120: which is a Profit of 20 per cent.: if he discounts a Bill for £100 at 20 per cent., he advances only £80, and at the end of the year he receives £100: which is a Profit of 25 per cent.

If he lends £100 at 50 per cent. interest, he advances £100 : and at the end of the year he receives £150 : or his Profit is 50 per cent.

If he discounts a Bill at 50 per cent., he advances only £50, and at the end of the year he receives £100 : *i.e.*, he makes Profit at the rate of 100 per cent.

So, discounting a Bill at 60 per cent., is Profit at 150 per cent.

If a person lends £100 at 100 per cent. Interest he advances £100, and at the end of the year he receives £200 : or his Profit is 100 per cent.

If a person discounted a Bill at £100 per cent. he would advance **Nothing** : and at the end of the year he would receive £100 : or his Profits would be **Infinite**

On Banking Discount

2. It is somewhat strange that this kind of Discount is entirely overlooked by Algebraists. We shall now trace the relation between Profits made by Interest and **Banking Discount :** as this kind of Discount may be termed

To find the Amount of a given Sum in any time at Simple Banking Discount

Let P = Principal Sum in £
r = Rate of Interest on £1 for 1 Year
D = Discount on P
n = Number of Years
M = Amount of Principal and Discount
Then rP = Interest on P£ for 1 Year
and $P - rP$ = Sum actually advanced = $P(1 - r)$
Let r' = Profit by way of Banking Discount on each £ of sum actually advanced

Then

$$\frac{r'}{r} = \frac{P}{P(1 - r)}$$

$$\therefore r' = \frac{r}{1 - r} : \text{ also } r = \frac{r'}{1 + r'}$$

Which is the relation which Banking Discount bears to Interest: and all Problems in Banking Discount may be solved by substituting $\frac{r}{1-r}$ for r in the Problems in Interest, both Simple and Compound

$$\text{Now, } D = rP = P\,\frac{r}{1-r}$$

$$M = P + D$$

$$= P\left(1 + \frac{r}{1-r}\right)$$

In n Years we have

$$D = P\,\frac{nr}{1-r} \quad . \quad . \quad . \quad (\alpha)$$

$$\text{and } M = P + D = P\left(1 + \frac{nr}{1-r}\right) . \; . \; . \; . \; (\beta)$$

These two Equations will enable us to solve any question in the subject

3. Adopting the Formulæ for calculating Interest and Banking Discount, we have the following

Table showing the Profits per cent. and per annum at Interest and Banking Discount

Interest	Discount	Interest	Discount	Interest	Discount
1	1·010101	6	6·382968	20	25·
$1\frac{1}{2}$	1·522832	$6\frac{1}{2}$	6·951871	30	42·857142
2	2·040816	7	7·526881	40	66·666666
$2\frac{1}{2}$	2·564102	$7\frac{1}{2}$	8·108108	50	100·
3	3·092783	8	8·695652	60	150·
$3\frac{1}{2}$	3·626943	$8\frac{1}{2}$	9·311475	70	233·333333
4	4·166666	9	9·890109	80	400·
$4\frac{1}{2}$	4·701570	$9\frac{1}{2}$	10·496132	90	900·
5	5·263157	10	11·111111	100	Infinite
$5\frac{1}{2}$	5·820105	15	18·823529	—	—

A consideration of this Table will show how Bankers' profits increase when Discount becomes high; and also what discounting a Bill at 50 and 60 per cent. (which we occasionally hear of in Courts of Law) means

To find in what Time a Sum of Money will double itself at Simple Banking Discount

4. The General Formula is—

$$M = P\left(1 + \frac{nr}{1 - r}\right)$$

Let $M = 2P$

$$\therefore \quad P = P\frac{nr}{1 - r}$$

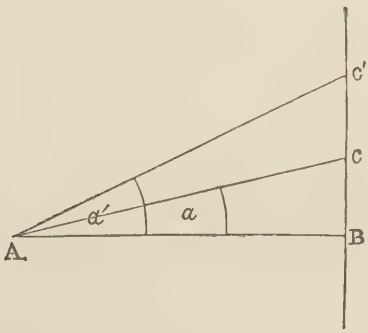
$$\text{or} \quad n = \frac{1 - r}{r}$$

Let $r = 5$ per cent. $= \frac{1}{20}$

$$\therefore n = \frac{1 - \frac{1}{20}}{\frac{1}{20}} = 19 \text{ years}$$

Hence a sum of money will double itself
At 5 per cent. Simple Interest in 20 years
Discount in 19 „

5. The Difference in Profit in trading by Interest and Discount being connected by this relation, may be exhibited by either of the following figures



Let AB represent the given sum
Bc the amount of Interest
Bc′ „ „ Discount

Then, $$\frac{Bc}{AB} = r, \quad \frac{Bc'}{AB} = r'$$

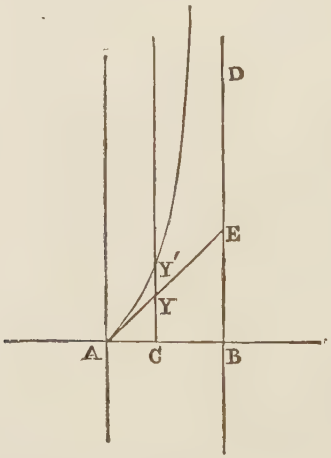
$$\therefore r = \text{Tan } a \qquad r' = \text{Tan } a'$$
$$a = \text{Tan}^{-1} r \qquad a' = \text{Tan}^{-1} r'$$

$$\therefore a' = \text{Tan}^{-1} \frac{r}{1 - r}$$

and $$a = \text{Tan}^{-1} \frac{r'}{1 + r'}$$

Hence, if either of the Quantities be given on the line B*c*, a portion representing the other may be found

Second method—



Let A be the origin
AB any given sum, a
AC = amount of Profit = x
CY = y = Profit at Interest
CY′ = y' = Banking Discount

Then $$\frac{x}{a} = r,$$

For Interest we have in all cases

$$y = x$$

The Equation to a straight line passing through the origin at an angle of 45°

For Banking Discount,

$$\frac{y'}{y} = \frac{r}{1 - r}$$

$$\frac{y'}{y} = \frac{\frac{x}{a}}{1 - \frac{x}{a}} = \frac{x}{a - x}$$

$$\therefore y' = \frac{yx}{a - x} = \frac{x^2}{a - x}$$

The Equation to a *Hyperbola*

When $x = 0$, $y' = 0$: when $x = a$, $y' = \infty$: as it should be

To find the Amount of a given Sum in any Time at Compound Banking Discount

6. Let R denote the amount of £1 with its Interest for one year

$$= 1 + r$$

Let R′ = amount of £1 with its Discount for one year

$$= 1 + r' = 1 + \frac{r}{1 - r} = \frac{1}{1 - r}$$

Then PR′ = amount of P in one year

The amount of PR′ in one year is PR′R′ = PR′²

∴ PR′² = amount of P in *two* years at Comp. Discount

so PR′³ = amount *three* „ „ „

. . . . . .

and PR′^{n} = „ „ *n* „ „ „

$$\therefore M = PR'^n = P\left(1 + r'\right)^n = P\left(1 + \frac{r}{1 - r}\right)^n = P\left(\frac{1}{1 - r}\right)^n$$

$$\therefore P = \frac{M}{R'^n}$$

$$n = \frac{\text{Log M} - \text{Log P}}{\text{Log R}'}$$

$$\text{R}' = \left(\frac{\text{M}}{\text{P}}\right)^{n}$$

The Profits gained in n years $= \text{M} - \text{P}$

$$= \text{P}\left(\text{R}'^{n} - 1\right)$$

To find in what Time a Sum of Money will double itself at Compound Banking Discount

7. We have $\text{M} = \text{PR}'^{n}$

Let $\text{M} = 2\text{P}$

$$\therefore 2 = \text{R}'$$

$$\therefore n = \frac{\text{Log } 2}{\text{Log R}'}$$

$$= \frac{\text{Log } 2}{\text{Log}\left(1 + \frac{r}{1 - r}\right)}$$

Let $r = 5$ per cent. per ann. $= \frac{1}{20}$

$$\therefore n = \frac{\text{Log } 2}{\text{Log}\left(1 + \frac{\frac{1}{20}}{1 - \frac{1}{20}}\right)}$$

$$= \frac{\text{Log } 2}{\text{Log}\left(1 + \frac{1}{19}\right)}$$

$$= \frac{\text{Log } 2}{\text{Log } 20 - \text{Log } 19}$$

$$= \frac{\cdot 3010300}{1\cdot 1301030 - 1\cdot 2787534}$$

$$= 13\cdot 51 \ . \ . \ \text{years}$$

Hence a sum of Money will double itself at 5 per cent. :—

At Simple Interest in	20	years
„ „ Discount	19	„
Compound Interest	14·206609	years
„ „ Discount	13·51	„

8. The formulæ for the Amount of a Sum in any given Time at Simple Interest and Banking Discount: and Compound Interest and Banking Discount are—

$$\text{At Simple Interest } M = P\left(1 + nr\right)$$

$$\text{Discount } M = P\left(1 + \frac{nr}{1 - r}\right)$$

$$\text{At Compound Interest } M = P\left(1 + r\right)^n$$

$$\text{Discount } M = P\left(1 + \frac{r}{1 - r}\right)^n = \frac{P}{(1 - r)^n}$$

These four formulæ will enable us to solve any Problems in the subject

To find the Difference in Profit at the end of the Year between discounting one Bill for £1,000 at twelve months, and discounting four Bills of £1,000 at three months in succession, at 5 per cent. Compound Discount

9.
$$M = PR' = P\left(1 + r'\right)$$
$$= P\left(1 + \frac{r}{1 - r}\right)$$

Here $r = 5$ per cent. $= \frac{1}{20}$

$$\therefore M = P\left(1 + \frac{\frac{1}{20}}{1 - \frac{1}{20}}\right)$$
$$= P\left(1 + \tfrac{1}{19}\right)$$
$$= £1{,}000\left(1 + \cdot 052631\right)$$
$$= £1052\cdot 631$$

For four Bills at 3 months we have—

$$M = P\left(1 + \frac{r'}{4}\right)^4$$
$$= P\left(1 + \tfrac{1}{4}\,\frac{r}{1 - r}\right)^4$$

$$= P\left(1 + \tfrac{1}{4}\ \tfrac{1}{19}\right)^4 = P\ (1 + \tfrac{1}{76})^4$$
$$= P\ (1{\cdot}013157)^4$$
$$= £1{,}000\ (1{\cdot}05367\ \ldots\ \text{by Logs})$$
$$= £1053{\cdot}67$$

To find the Profit on discounting at more frequent intervals than a year

10. Suppose the interval is six months, then $\frac{r'}{2}$ will be the Discount of £1 for $\frac{1}{2}$ year

At Compound Discount the amount of P in n years is $P\left(1 + \frac{r'}{2}\right)^{2n}$: because the amount is the same as if the number of years were $2n$ and the Discount $\frac{r'}{2}$ on £1 for one year

So for four months, or three intervals, the amount is—

$$P\left(1 + \frac{r'}{3}\right)^{3n}$$

For three months—

$$P\left(1 + \frac{r'}{4}\right)^{4n}$$

CHAPTER VIII

ON THE FOREIGN EXCHANGES

Definition of an **Exchange**

1. An "**Exchange**" in commerce is when a person pays his Creditor by transferring to him a Debt due to him from some one else

Thus, where a person pays a Debt by means of a Bank Note, or a Cheque on his Banker, it is an "Exchange." It is an example of *Novatio* or *Delegatio* in Roman Law

Two passengers are travelling in an omnibus. The fare is sixpence. One passenger pays the conductor a shilling. The conductor is then indebted to that passenger in sixpence. Another passenger has a sixpence in his hand ready to pay his fare. The conductor, by a nod, tells him to give the sixpence to the first passenger. Thus both Debts are paid. The Debt of the second passenger to the conductor, and also the Debt of the conductor to the first passenger, are both paid by the second passenger paying the sixpence to the first passenger. The whole transaction is an "Exchange"

Three parties and two Debts are thus necessary to an "Exchange"

The "Exchanges" is that branch of commerce which treats of the remission and settlement of Debts between parties living in different places by means of Paper Documents, and the Exchange of the Money of one country for that of another

The state of the Exchanges between any two places or countries depends upon two distinct things :—

1. The state of the Moneys of the two places
2. The state of Commercial dealings between the two places

The state of the Exchanges, which depends upon the state

of the Moneys of the two places, is termed the **Nominal Exchange**

The state of the Exchanges which depends upon the Commercial dealings between the two countries is termed the **Real** or the **Commercial Exchange**

On the Nominal Exchange

2. Suppose that the Coinages of two countries are of the same metal, and the Coinage of one country is taken as the standard: then the Quantity of the Coin of the other which contains exactly the same quantity of pure metal is called the **Par** of **Exchange** between the two countries

Suppose that the Exchanges between England and France were estimated in Gold. There is as near as possible one-fourth more pure Gold in an English sovereign than in a Napoleon or the French 20 franc piece

If the English sovereign were taken as the standard, it would be equal to 1·25 Napoleon: and 1·25 would be termed the **Par of Exchange** between England and France

The Exchanges between England and France are, however, estimated in francs, which are a silver coin. Moreover, the English sovereign is not exactly 1·25 Napoleon: accordingly 25·21 (francs) is usually considered as the Par of Exchange between England and France

Effect of a Depreciated Coinage

3. We have observed in a former chapter that Coins may circulate at par in their own country at their full nominal value after they have lost a considerable amount of their weight by wear and tear, because persons in general are not very rigorous in weighing every Coin they receive

But when they are exchanged for Bullion, or for the Coins of a foreign country, they are always weighed and exchanged weight for weight. If, therefore, from any reason whatever, the English coins have become degraded, worn, or clipped, and so lost their proper weight for any reason, they will evidently not buy so much bullion or full-weighted francs as if they were of

their full legal weight. If English sovereigns were in this Depreciated state they might perhaps only purchase 24 francs instead of 25·21. This would be called a **Fall** in the Foreign Exchanges

Or if an English merchant were obliged to pay a Debt of 2,521 francs in Paris, he would have to give *more* than £100 to purchase them. This would be called a **Rise** in the Foreign Exchanges: and the Exchange would be said to be so much *against* England by the amount of the difference

When English Coin is used to buy French Coins, it may be looked at in two points of view—

1. A Fixed amount of English Coin may buy a certain amount of Foreign Coin

2. A certain amount of English Coin may be required to buy a Fixed amount of French Coin

In the first point of view, a Fixed amount of Depreciated English Coin will buy a **Less** amount of French Coin

In the second point of view, it will require a **Greater** amount of Depreciated English Coins to buy a Fixed amount of French Coins

Hence, when a Depreciated Coinage is said to produce a **Fall** *in the Foreign Exchanges, it means that a Given Amount of Home Coinage will purchase a* **Less** *Amount of Foreign Coin*

When a Depreciated Coinage is said to produce a **Rise** *in the Foreign Exchanges, it means that it requires a* **Greater** *Amount of Home Coinage to purchase a Fixed Amount of Foreign Coin*

A clear understanding of these expressions will prevent any confusion arising when they are used indiscriminately, as they often are, in discussions on the Exchanges: they are not contradictory, as they might appear to be: they only refer to two different methods of estimating the Coinage

It is evident that this adverse state of the Exchanges will continue as long as the Depreciation of the Home Coinage exists: and that a restoration of the Home Coinage to its proper state will at once rectify the Exchanges

It is evident that a Depreciation of the Coinage by a Debasement of its Purity will produce exactly the same effects

There can be no **Par of Exchange** *between countries which use* **Different** *Metals as their Legal Standard*

4. There can only be a Par of Exchange between two countries when they both use the *same* Metal as their Legal Standard

There can be no true Par of Exchange between countries which use *different* Metals, such as Gold and Silver, as their Legal standard. The relative Market Value of the two Metals is always varying, from causes entirely beyond the control of any law. It is no more possible to have a fixed price of one in terms of the other than it is to have a fixed legal price for corn or for any other commodity

In the year 1797, when the Bank of England stopped payment, the House of Lords appointed a Committee to investigate the subject. The Committee among other things wished to ascertain the Par of Exchange between London and Hamburg, and they examined several merchants on the subject. But they were quite unable to agree among themselves what the true Par of Exchange between the two places was : and the Committee reported that they were unable to come to a satisfactory conclusion on the subject. There cannot in the nature of things be any fixed or true Par of Exchange between England and any country which uses a silver standard. It is only possible to say that such is the *usual Rate of Exchange* between them. Hence, when it is said that 25·21 francs is the Par of Exchange between England and France, it means that it is usually reckoned the Rate of Exchange, at the present market values of Gold and Silver : and even the best authorities differ by several centimes in their estimate. And between such countries it is sometimes impossible to decide certainly which way the Exchange is unless the difference exceeds a certain amount

If the **Coinage** *is in a* **Depreciated** *State, to Determine whether the* **Exchange** *is* **Favourable,** *at* **Par,** *or* **Adverse**

5. Suppose that at any time when the English Coinage is

at its full legal weight, £100 in sovereigns will purchase 2,521 French silver francs

Suppose that the Coinage becomes Depreciated so that the Market Price of Bullion rises to £4 3*s.*

Then the Market Price of £100 in full weighted Coin is £106 11*s.* 7½*d.*

Suppose the Exchange on Paris is at 23·80 : or that £100 will purchase 2,380 francs : then £106 11*s.* 7½*d.* will purchase 2536·63 francs

But as the Par at the Mint Price is 2,521 francs, it is evident that the Difference between 2,521 francs and 2536·63 francs is the extent to which the Real Exchange is in favour of England. Therefore the Real Exchange is 15·63 francs in favour of England

It is also easy to see how much the Exchange is depressed : because £100 ought to purchase 2536·63 francs : but they will only purchase 2,380 francs : consequently the Exchange is depressed by 206·63 francs : or the 100 sovereigns are deficient in that amount of their legal weight, and this will be found to tally with the rise of their Market Price above their Mint Price

Hence, a Depreciated Coinage necessarily produces a **Rise** *of the Market Price of Bullion above the Mint Price: and a* **Fall** *in the Foreign Exchanges below Par*

Because it will require a *Greater* amount of the Current Coin to buy a *Fixed* amount of Bullion : and a *Fixed* amount of the Current Coin will buy a *Less* amount of Foreign Coin

And, evidently, a **Rise** *of the Market Price of Bullion above the Mint Price : and a* **Fall** *of the Foreign Exchanges below Par :* **Proves** *and* **Measures** *the* **Depreciation** *of the English Coinage*

Hence we have the following rule—

Find the Market Price in London compared to the Mint Price :

Multiply the Market Price so found by the Rate of Exchange :

Then the Exchange is Favourable, at Par, or Adverse, according as the Result is Above, At, or Below Par

And the Depression of the Exchange caused by the Depreciation of the Coinage is the Difference between the Sum so

expressed in the Mint and Market Prices, multiplied by the Rate of Exchange

In the excellent state in which our Coinage now is, the question of the Nominal Exchange is of little importance : but it is impossible to understand the history of the Currency without it. And it is essential as regards all Foreign countries which use an Inconvertible and Depreciated Paper Money

On Inconvertible Paper Money

6. The above considerations affect Coinages of Gold and Silver : but in modern times a new species of Money has come into use, and nearly every country has had recourse to it in times of public difficulty—and that is **Paper Money**

While Paper is convertible—*i.e.*, while the holder of it can compel the issuer to give specie on demand in exchange for it—it is evident that it cannot circulate at a discount ; because if it fell to a discount, the holders of it would at once go and demand Gold for it

In quiet and ordinary times a Bank can keep in circulation a very much larger amount of Credit either in the form of Notes, or simple Bank Credits, than the Bullion they are obliged to retain. In fact, as has been seen in a former chapter, Banking profits can only be made by creating and issuing Credit in excess of Bullion. And so long as there is confidence in the issuers, this Credit circulates and produces in all respects identically the same effects as so much Gold

But suppose some great public calamity happens such as war, or an invasion, this confidence vanishes and numerous persons would demand Gold for their Credit

Under these circumstances, and with the enormous quantity of Paper in circulation in modern times, every country in Europe has been compelled to suspend payments in cash ; and to give an artificial value to the Paper by receiving it in payment for taxes, &c., at its nominal value in specie : and by making it Legal Tender. When this is done the Paper Money becomes in all respects equivalent to a new standard, just as much as Gold and Silver ; and its value is affected by exactly the same principles as affect the value of Gold and Silver

Under the old system of attempting to fix the price of Gold relatively to Silver, there was no power of convertibility of one into the other, similar to the convertibility of the Bank Note. If Silver fell to a discount as compared with Gold, no one could demand as a right to have his Silver exchanged for Gold. Consequently the inevitable result of a considerable change in the Quantity of either metal was a change in their relative values. In 1794, Gold rose to 84*s*, if purchased with *Silver* Bullion : but if the Silver Coin had been convertible into Gold like a Bank Note, this difference never could have arisen : any more than a Bank Note convertible into Coin can circulate at a discount as compared with Coin

Now Paper Money when issued as a substantive Coinage follows exactly the same rules. If only the usual Quantity of it be issued *i.e., no greater quantity than would have been issued if it had been convertible into Coin*, it will continue to circulate at its Par value. But if these issues be increased in Quantity, and if the natural correction of excessive issues be taken away, viz., payment in coin on demand, exactly the same result follows as attends a greatly increased Quantity of Silver—it falls to a Discount

Lord King's Law *of* Paper Money

7. When either of two metals as Coinage becomes greatly increased in quantity, it Diminishes in Value as compared with the other : and Gold and Silver Money not being convertible, if they are compelled to circulate at a fixed ratio, in accordance with Gresham's Law, the one which is underrated invariably disappears from circulation and is exported to foreign countries, where it may exchange for its true value

When one metal diminishes in Value with respect to the other it is not *Depreciation*, because it has a value of its own in the market of the world. But when Paper Money is used in a country which has no Value of its own, but merely an artificial Value, and it becomes excessive in quantity, it cannot be exported ; because it has only a Local Value, and not a General Value in the Market of the world. It falls to a discount as compared with Coin : and in this case it is **Depreciation :**

because it professes to be equal in Value to Coin, and it is not so

If it is attempted to maintain a fixed ratio between Paper Money and Coin after the Paper has fallen to a Discount, exactly the same result follows as took place when Coin of inferior value circulates at par with Coin of superior value. The Coin is all hoarded or exported: it entirely disappears from circulation: and nothing but Paper remains. As the quantity of Paper is increased it falls in value: all Prices rise: the Foreign Exchanges fall: and all the Foreign Trade of the country is deranged

A few years after the Bank of England suspended payments in 1797, the Price of Bullion rose and the Foreign Exchanges fell: deranging the whole course of the Foreign trade. Some able writers, the most conspicuous of whom was Lord King, maintained that this was due to the Depreciation of the Bank Note. Strong interests, however, contested this doctrine. The Bank contested it because it found it profitable to issue as much Paper as possible: merchants contested it because they were afraid that their accommodation would be restricted. After a short time the value of the Bank Note improved, and the question slumbered

In 1809 the same phenomena recurred in a much more exaggerated form, and gave rise to the appointment of the celebrated Bullion Committee. All the witnesses before this Committee except one maintained that it was not the Bank Note which had fallen, but that Gold had risen

The Report, however, drawn up by Huskisson, Horner, and Thornton, entirely disproved this assertion, and showed that the Rise of the Market Price of Bullion and the Fall of the Foreign Exchanges was due entirely to the Depreciation of the Bank Note from Excessive quantity: and they recommended a Diminution of its issues so as to restore the Value of the Bank Note

Resolutions in accordance with the report were moved by Horner; it was proved that there two prices in common use: a Paper Price and a Money Price; and that a £1 Bank Note and 7*s.* were commonly given for a guinea. Nevertheless, under the influence of party passion, the House of Commons voted that a guinea was equal to a Bank Note and 1*s.* in public estimation: or that 27 = 21. Freed by this vote from all control, the Bank

made more extravagant issues than ever, so that in 1815 the Bank Note was only equal to 14*s.* 6*d.*

However, the doctrine of the Bullion Report gradually convinced the Mercantile world : and in 1819 they were almost unanimously in its favour

Lord King's Law is this—

A Rise of the Paper or Market Price of Bullion above the Mint Price: and a Fall of the Foreign Exchanges below the Limits of the Real Exchange: is the Proof and the Measure of the Depreciation of the Paper Money

This principle is so universally admitted now, and so perfectly evident, that there is no use in wasting more words to prove it

It shows that Paper Money must always be restrained within certain Limits to maintain a Par Value with Gold. But if this be duly done, Inconvertible Paper Money may circulate along with Bullion at par

If the Bank of England had duly limited its issues, its Notes might have circulated at par with gold. In 1874 the Inconvertible Notes of the Bank of France circulated at par with Coin because they were carefully limited

This doctrine contains the principle by which all Credit and Paper Currency, whether Convertible or Inconvertible, must be regulated—namely, a strict attention to the Price of Bullion and the state of the Foreign Exchanges

The demonstration of the Bullion Committee was in course of time universally accepted by the Banking and Mercantile world ; the only difficulty left unsolved was the Practical Measures to be adopted to carry it into effect

However, after several unsuccessful attempts to discover the true method of giving effect to this doctrine, this problem has now been successfully solved : and thus the Theory of the Paper Currency is now complete

On the Real *or* Commercial Exchange

8. We have now to explain the mechanism of the Real or Commercial Exchange

Suppose A in London is Creditor to B and Debtor to B′, both in Edinburgh, in equal amounts

Then to settle these Debts it would be necessary for B in Edinburgh to send the money to A in London : and A in London would have to send an equal amount to B′ in Edinburgh. This would require two transmissions of specie between London and Edinburgh, at some expense

The business may be settled much more easily and cheaply if A sends B′, his Creditor in Edinburgh, an order upon B, his Debtor : by this means both Debts are discharged by B paying over the money to B′ : that is, by the simple transfer of the money from B to B′ in the same place, instead of by two transfers between London and Edinburgh. This order is termed a Bill of Exchange : and the operation is exactly similar to a person paying a Debt by a Cheque on his banker

Thus an "Exchange" requires at least *three* parties and *two* Debts

On Exchange with Four Parties

9. But the course of trade between two places gives rise to more complicated transactions

In the above case we have supposed A to fulfil two characters : to be Debtor to one party and to be Creditor to another in Edinburgh

But in the Exchanges it more usually happens that there are *four* parties

Suppose A in London is Creditor to B in Edinburgh : and B′ in Edinburgh is Creditor to A′ in London

Then to settle these Debts two transmissions of specie are necessary between London and Edinburgh

But suppose that A′ in London goes to A and pays him the money he owes to B′ in Edinburgh, and buys from him his Debt against B in Edinburgh. He then sends this order to his own Creditor B′ : and B′ presents the order to B, and B pays him the money : hence both these Debts are settled by two local transfers, instead of by two transmissions of specie between the two places

When the Debts between London and Edinburgh are exactly equal they may all be discharged by means of these "**Exchanges**" without sending any specie. The Exchanges are then said to be at **Par**

The **Time Par** *of* **Exchange**

10. Suppose, however, that the Debts between London and Edinburgh are not equal : and that Edinburgh wishes to send more money to London than it has to receive from London. Then the Demand for Bills is greater than the Supply

But as it is cheaper to send a Bill than the Cash, those who are bound to send Money will bid against each other for the Bills in the market as for any other merchandise : and the Price of Bills will rise : or a **Premium** will have to be paid for a Bill on London

London is the great centre of commerce. It is the seat of Government, to which the revenue is remitted from all parts of the country. The great families from all parts of the country go to reside there, and their revenues must be remitted to them there. Hence there is always a much greater quantity of money seeking to flow to London from the country than the contrary. Consequently the Demand for Bills on London in the country is always greater than the Supply : and therefore Inland Bills upon London are always at a Premium

This Premium is computed by **Time.** It is an essential part of the business of a banker to give these Bills. If a person in Edinburgh wants a Bill at sight on London, he has to pay 1*s.* per cent., or four days' interest. This is termed the **Time Par** *of* **Exchange** between Edinburgh and London. There is a similar Premium on Bills on Time Par of Exchange between all other towns in the country and London. This is termed **Inland Exchange**

It appears from this that when in any place the Demand for Bills on any other place is greater than the Supply, and therefore when *Bills rise to a Premium,* the Exchanges are **adverse** to the first place, because it has more money to pay than to receive

But when the Supply is greater than the Demand, *Bills fall to a* **Discount,** and the Exchanges are **favourable** to the first place, because it has more money to receive than to pay

It must be observed, however, that the interests of Buyers and Sellers are opposite : if the Exchange is unfavourable to the

Buyers of Bills, or those who wish to send money, it is equally favourable to the Sellers of Bills, or those who have to receive money

Buyers of Bills are also termed *Remitters:* and Sellers are also termed *Drawers*

On **Foreign Exchange**

11. The principle of Foreign Exchange is exactly the same as that of Inland Exchange. But there is considerably more complication, in consequence of different countries using different Metals as legal standards and different Coinages

In Exchange between two foreign places, and of different Moneys, the Money of one place is always taken as **Fixed**; and the Exchange is always reckoned in the **Variable** Quantity of the Money of the other place which is given for it

The former is termed the **Fixed** or **Certain** Price : and the latter the **Variable** or **Uncertain** Price

Between London and Paris the £ is the *Fixed* Price, and the Exchange is reckoned in the variable sum of francs and cents given for it

On the contrary, between London and Spain the Dollar is the Fixed Price, and the Exchange is reckoned in the Variable number of Pence given for it

When any place is taken as a centre, if the Money of the Place is the **Fixed** Price, it is said to **Receive** the Variable Price

But when the Money of the place is the **Variable** Price, it is said to **Give** the Variable Price

Thus London receives from Paris so many Francs and Cents. for the £ : on the contrary, London *Gives* Spain so many Pence for the Dollar

In the quotations of the Rates of Exchange it is usual to omit the Fixed Price and name only the Variable Price : and then that sum is termed the **Rate** or **Course** *of* **Exchange**

According to *Tate's* Modern Cambist the following are the present Rates of Exchange between London and the principal foreign cities :—

London **Receives** *from*

Amsterdam	11·19 Florins and silver for £1
Germany	20·43 Imperial Marks and Pfennings for £1
France, Italy, Belgium, Switzerland	25·30 Francs or Lire and Cents. for £1
Austria	10·35 Florins and Kreuzers for £1

London **Gives** *to*

Lisbon	53½ Pence	for	1 Milreis
Spain	50¼	„	1 Hard Dollar
Gibraltar	40½	„	„
St. Petersburg	37½	„	1 Silver Rouble
Rio Janeiro	26½	„	1 Milreis
New York	49	„	1 U.S. Dollar
Calcutta	23	„	1 Govt. Rupee

The above are the Mint Par Rates: but in some countries they are deranged by Paper Money being the circulating Medium of the country instead of specie

Effects of the Exchanges being **Favourable** *or* **Adverse** *to London*

12. As a General Rule, when the Exchanges at any place, such as London, are *Against* the place, or Adverse, Bills on foreign places are at a **Premium,** because London has more money to send than to receive

On the contrary, when the Exchanges are *favourable* to London, foreign Bills fall to a **Discount,** because London has more money to receive than she has to pay

But in consequence of the *Opposite* modes of reckoning the Exchanges in London on different foreign countries, the very same effects will require to be expressed in **Opposite** terms, according as London Receives or Gives the Variable Price

Exchange between London and Places **from** *which it* **Receives** *the Variable Price*

13. If the Exchange of London and Paris is *against* London:

that is, if the Demand for Bills in London on Paris is greater than the Supply, and therefore Bills rise to a Premium, it is clear that they will purchase *Fewer* francs

Hence, between London and Paris, when the Exchange is **against** London, the Rate of Exchange will **fall Below Par**

On the contrary, when the Exchange is favourable *to* London : and the Supply of Bills is greater than the Demand, and therefore Bills fall to a Discount : the Rate of Exchange will **Rise Above Par**

And the same is manifestly true with respect to all other places from which London Receives the Variable Price

Exchanges between London and Places to which it **Gives** *the Variable Price*

14. But of course the contrary takes place between London and all places *to which* it *Gives* the Variable Price

If the Exchange between London and Spain is against London : and Bills on Spain rise to a Premium ; London must **Give more** Pence to buy a Spanish Dollar

Hence between London and Spain, when Exchange is *Against* London ; the Rate of Exchange **Rises Above Par**

On the contrary, when the Exchange is *Favourable* to London, she will **Give Fewer** Pence to buy the Dollar

Hence between London and Spain when the Exchange is *favourable* to London, the Rate of Exchange **Falls Below Par**

And the same is manifestly true with respect to all other places *to which* London *gives* the Variable Price

Hence, when the Rate of Exchange between London and any other place varies from Par, in order to determine whether the Exchange is favourable or adverse, it is always necessary to consider whether London *gives* the Variable Price *to*, or *Receives* the Variable Price *from*, that place

One reason of the complication of the subject of Exchanges is that London *Gives* the Variable Price to some places and *Receives* it from others : consequently the same Real State of the Exchanges requires opposite expressions in these opposite cases. But it is exactly the same with all the other great centres of

Exchange : they each *give* the Variable Price *to* some places and *Receive* it *from* others

On the **Limits** *of the* **Variations** *of the Exchanges*

15. When the Debts to be exchanged between any two places are exactly equal, the Demand and Supply of Bills at each place is exactly equal : and the Exchanges are at Par : because there is no money to be remitted from either side

But if one place has to send more money than it has to receive, the Demand for Bills will cause them to rise to a premium

It is the duty of the Debtor to place the money on the spot for the Creditor at his own risk and expense : consequently as it it cheaper to send a Bill by post than to send the cash with all the expenses of freight and insurance to pay, he would rather give a little more than the nominal value of the bill in order to save the expense of sending the cash

But he will not give more than the cost of sending the Bullion : because if the Price of Bills was higher than that, it would be cheaper to send the money itself

Hence the Cost of sending the money is a **Superior Limit** to the Variations of the Real Exchange

But the reverse case may also happen. The Supply of Bills in London or Paris may exceed the Demand. In that case London has more Money to receive than to pay. The Price of Bills will consequently fall. But for the same reason the Cost of transmitting Bullion will be an **Inferior Limit** below which the Price will not fall

Hence the Limits of the Variations of the Exchanges are confined to **Twice** the cost of sending Bullion between the two places

The **Limits** of the Variations of the Exchanges between two places are termed **Specie Points :** because when the rates of Exchange reach them, Bullion may be expected to flow in or out, as the case may be

It must be observed, however, that these Limits of the Variations of the Exchange only apply to Bills payable at once, and to considerable periods. During short periods, and for Bills which

have some time to run, fluctuations in the Exchanges may greatly exceed these Limits.

At the present time, the following are considered to be the Specie Points between London and various centres of Exchange

French	American
Francs	Dollars
25·32½—4 per mille for us	4·89 —5 per mille for us
25·22½—Par	4·867—Par
25·12½—4 per mille against us	4·827—8 per mille against us
German	
Marks	**Australian**
20·52 —5 per mille for us	£102 always for us
20·43 —Par	
20·33 —5 per mille against us	

Effects *of the* Restoration *of the* Coinage *on the* Exchanges

16. In the preceding remarks on the Nominal Exchange, it has been seen that the depreciation or degradation of the Coin in which the Exchanges are reckoned, must necessarily derange all the Exchanges of the country: and that the simple Restoration of the Coinage to its due state will be sufficient to Rectify the Exchange

But the state of any other portion of the Currency, or Circulating Medium, than the one in which the Exchanges are reckoned, will not affect them

In the early part of the reign of William III., the Silver Coinage, in which the Exchanges were then reckoned, had fallen into a most disgraceful state from clipping, and other causes. On collecting bags of coin, in different parts of the country, it was found that their weight scarcely exceeded one-half of what it ought to have been. In the beginning of 1696 the great work of recoinage began, and by the middle of July the new coin began to be issued in considerable quantities. The state of the London Exchange will exemplify our remarks—

STATEMENT OF THE RATES ON THE LONDON EXCHANGE DURING 1695—1696

	Amsterdam	Rotterdam	Genoa	Antwerp	Hamburg	Cadiz	Madrid	Venice
April 23, 1695 .	31·2	31·4	56·29	30·11	29·11	56·2	56·1	59·
Jan. 24, 1696 .	31·0	31·2	60·	31·	29·9	60·0	60·	63·
May 2, „ .	30·1	30·2	64·	30·	28·8	60·	61·	61·2
July 19, „ .	29·3	30·6	65·	29·	—	60·	—	—
July 28, „ .	38·7	38·9	58·	33·	32·4	53·	58·	54·
Sept. 29, „ .	36·5	36·7	54·	36·	35·	48·	49·	51·
Octr. 6, „ .	36·8	36·10	53·2	35·7	35·8	48·	49·	—
Novr. 6, „ .	37·4	37·6	52·1	37·2	36·4	47·	48·	49·
Decr. 16, „ .	37·8	37·10	51·	37·8	36·8	46·2	47·	49·

On examining this Table we see that a great change in the figures took place in July, 1696. Some *rise* very much, and others *fall*. It was at this period that the new Coinage came out in great abundance. This rectified the Exchanges : the Exchanges on those places *from* which London *received* the Variable Price *rose*, because the good English Coinage would purchase more Foreign Coin. Those *to* which London *gave* the Variable Price *fell*, because it required a less amount of good English Coinage to purchase a fixed amount of Foreign Coin

Bank of England Notes, at this period, were at a heavy discount, because the Bank had suspended cash payments : but that produced no effect on the Exchanges, because they were not reckoned in Bank Notes, but exclusively in Silver Coin

On Exchange Operations

17. Exchange operations consist in buying, selling, importing and exporting **Bullion**, called "**Bullion** operations," and buying and selling **Bills**, called "**Banking** operations"

The calculations necessary to ascertain the profit and loss on such operations are given at length in various technical works on the subject. Our object only is to examine the general causes which produce those movements of Bullion, which so sorely vex the banking and commercial world

Exchange operations of both sorts may be either direct or indirect ; that is, they may take place directly between the two

countries, or the final operations may be effected through the medium of one or more intermediate countries

We have observed that for Bills payable at sight the limits of the variations of the Exchange cannot exceed the cost of the transmission of Bullion, which are called the specie points : because, when they are reached, Bullion may be expected to flow in or out

When the Bills, however, have a considerable time, such as three months, or more, to run, before they are payable, causes may operate which may produce *temporary* fluctuations of the Exchange considerably beyond these limits. These are, chiefly—

1. The necessity that the holders of these long-dated Bills may have to realise them, even at a considerable sacrifice, to maintain their own position

2. The doubtful position of the acceptors, or the general discredit of the place they are drawn upon

3. The differing relative Values of the precious metals which are the standards of payment at each place

4. The respective Rates of Discount at each place

Now, it may very often happen that from these combined causes, it may be considerably more profitable to possess Bullion at one place than another. Whenever this is the case, exchange operators export Bullion from one place to another, for the sake of this profit. They create Bills upon such a place ; they draw upon their correspondents, discount their Bills, and remit the proceeds to meet their drafts when due

It used to be the dogma of many commercial writers, that Bullion is only exported to discharge a previous state of indebtedness : and that, consequently, a drain of Bullion comes to a natural end, when the indebtedness is discharged. But this is a most grievous error. The sufficient difference of profit in possessing Bullion at two places, will cause a fabrication of Bills for the purpose of exporting Bullion, without any previous indebtedness : and, of course, this will continue so long as this possibility of profit exists. Consequently, unless this profit is destroyed, the drain of Bullion will not cease. The effectual way of annihilating this profit is by raising the Rate of Discount

It is manifest that, in such operations, the difference of profit between the two places must exceed twice the cost of transmitting

Bullion, because, in such cases, the cost of transmitting the Bullion both ways will fall on those who originate them

Between countries in which there are no restraints upon trade, the Exchanges will never vary much, except on some sudden emergency; but there are countries with which, owing to the prohibitive laws which still infest their commercial codes, the Exchanges are permanently unfavourable, because they will take nothing but Bullion for their commodities. Russia is one of these countries, and hence, if not modified by other circumstances, Bills upon Russia would always be at a premium; but here, again, the effect of trafficking steps in, which always has a tendency to equalise prices. The merchant (if we may call him so) who deals in Bills, acts upon the same principles as the dealer in any other commodities: he buys them where they are cheapest, and sells them where they are dearest. Hence he will try to buy up Russian Bills cheaper in other Exchanges, or Debt Markets, and sell them in the London Debt Market. On the other hand, from the course of trade between England and Italy, the debt which Italy owes to England is usually greater than the contrary; hence, Italian Bills will usually be at a discount, or cheap, in the London Debt Market. So the Bill merchant buys them up cheap here, and sends them to some other market—Paris, for instance—where they may be at a premium. By these means the price of Bills is raised where they are cheapest, and depressed where they are dearest; and the general result will be, to melt all the differences between separate countries into one general result, so that the Exchanges will not be favourable with one country and adverse with another; but they will be generally adverse or favourable with all the rest of the world

Supposing, however, a merchant has to remit money to Paris, while the Exchange with Paris is unfavourable to England, he may possibly discover a more advantageous way of remitting it than by buying a Bill on Paris directly. Thus, for instance, while Bills on Paris are at a premium in London, those on Hamburg may be at a discount: and Bills on Paris may be at a discount in Hamburg. So if the merchant buys a Bill on Hamburg, and sends it to his agent there, and directs him to purchase a Bill on Paris with the proceeds, he may be able to discharge his debt in

Paris at a less sum than he would have to pay for a Paris Bill in London. This circuitous way of settling his debt involves additional charge. for brokerage, commission, postage, &c., but the effect of it is still further to equalise the exchanges between London and all other countries. This circuitous method is called the *Arbitration of Exchanges*, and the sum which is given in London for the ultimate price it realises in Paris is called its Arbitrated Price. When only three places are used in the operations above, it is called *Simple Arbitration*. When more than three are employed, it is called *Compound Arbitration*. The practical rules for working out these results are very simple, and will be found in any technical book on the subject. But it is very evident that the quicker, safer, and cheaper the communication between countries becomes, the less room will there be for such operations, because the limits of the variations of the real Exchanges, which are the margin which renders such transactions possible, will constantly diminish

The scale on which these indirect operations of Exchange is carried on is immense, and peculiarly affects the London Exchange. There is no Exchange between places to and from which remittances have not constantly to be made. Consequently, when such places trade, their accounts must be settled by means of drafts upon some third recognised centre. Now, London is the banking centre of the world. From the enormous exports of England to all quarters of the globe, remittances have to be made to London from every part of the world. There is, therefore, a constant demand for Bills upon London to discharge the debts incurred for these commodities. Hence, although the exporters may send their goods to different countries, yet, if they can draw upon London, their bills will be sure to find some purchasers somewhere, to be remitted to England. Hence, Bills upon London bear a higher price, and meet with a readier sale, than those upon other places

One country, A, may import from another, B, less than she exports, and, consequently, a debt is due from A to B. Also, B exports to another country, C, more than she imports ; and, consequently, a debt is due from C to B, and A may discharge its debt to B, by transferring to it its claim against C

As many countries trade with one another, between which

there is no exchange, their claims are mutually adjusted by drafts upon London, the commercial centre. Hence, the London Exchange is the most important in the world, and requires the greatest attention to be paid to it

In the same way that there are arbitrated rates of Exchange, there are arbitrated prices of Bullion, but we need not enter into them here

On the Real *or* Commercial Exchange

18. We must now consider the causes that affect the Real Exchange, or the true Commercial one, which arises out of the transactions between this and other countries. As the British Islands do not produce the precious metals to any extent worth considering, they are only to be obtained in this country by importation, and we must now consider the various sources from which they come, and the different causes that produce an influx or efflux of them. They are to be treated in every other respect like any other foreign commodity, and are obtained by the same means as any other one that we require for domestic consumption which is not a native product

The trade in Bullion may be divided into two distinct branches: the one where it is carried on directly with the countries in which gold and silver are native products: and the other with those countries which do not produce it; but which, like our own, have no means of supplying themselves with it except by foreign commerce

I. *With Bullion-producing countries.* Before the late discoveries in California and Australia, the chief Bullion-producing countries were Mexico and Peru. We need not specify others, because the same principle applies to them all, and to describe them all would rather belong to a work on commerce generally. British merchants have establishments, or correspondents, in those countries, to whom they consign their goods, and their agents exchange them for the Bullion brought down by the natives, and which is collected in large quantities, and usually brought home by men-of-war, for the sake of security. Most of the men-of-war on the Pacific and West India stations, used to make a voyage

along the coast, before they return home, to collect Bullion from the merchants, and the captain received a commission on the freight. In those countries Bullion is treated exactly like any other commodity, such as tea, or wool, or wine, and the British goods, of all kinds, are exported to them for the express purpose of being exchanged for Bullion to be remitted home. The limits of this exportation are precisely similar to the limits of the exportation to any other country. It is clear that by the time the Bullion reaches this country, it ought to be sufficient to cover the original price of the goods, and all the charges on them on their way out : as well as the agent's commission there, the charges for freight, insurance, and commission for bringing it home, and a fair mercantile profit over and above all these expenses. Unless it does that, the commerce is not profitable. If too many goods are exported to those Bullion-producing countries, their exchangeable value with Bullion falls, and they will not purchase a sufficient quantity of Bullion to afford this profit, and the further exportation of such goods to those markets must be discontinued until the goods first sent out are consumed, and fresh ones required. The purchase of Bullion, then, in those countries, is a very simple affair, and requires no further notice

II. *With countries which do not produce Bullion.* The causes which produce an inflow or outflow of Bullion, between this and other countries like it, which do not produce Bullion, are much more intricate, and have excited long and keen controversies. Taking this country as the centre, we may consider that the transmission of Bullion, to or from it, is influenced by the **Seven** following causes—

1. The Balance of Payments to be made to or by it
2. By the state of the Foreign Exchanges
3. By the state of the Currency
4. By Remittances made to this country, as the commercial centre of Europe, to meet payments due to other countries
5. By the Political Security of this and neighbouring countries
6. By the state of the Money Market, or the comparative Rates of Interest in this and neighbouring countries
7. By the free or prohibitive Commercial Tariffs of this and

foreign countries, as they permit or forbid our manufactures to be imported into them

There are, then, **Seven** different causes which act upon the movements of Bullion ; and, in any case, it is necessary to ascertain to which of these causes it is due. The inveterate error of mercantile opinion for a long time was, that there is only one cause which causes an export of Bullion, namely, a balance of payments to be made

We have already shown that a degraded state of the Currency has the inevitable effect of driving away Bullion from here. As we may fairly hope that our Currency will never again be allowed to fall into such a disgraceful condition as it was till 1816, we may consider that this cause is not likely to operate again on the Bullion Market ; but we may now proceed to develope the system of the **Foreign Exchanges**

19. According to the crude ideas that were generally received about two centuries ago, gold and silver were almost universally considered to be nearly the only species of wealth, and it was considered to be the true policy of every country to encourage by every means in its power, the influx of Bullion, and to discourage its export ; and most, if not all, of the European nations have gone so far, at one time or another, as to prohibit its export. The profit of foreign commerce was estimated solely by the quantity of gold and silver it brought into the country ; and the Theory of Commerce seemed to be reduced to a general scramble among all nations to see which could draw to itself most gold and silver from the others. According to this theory, the gain of one party was the loss of the other ; every article produced in another country, and imported into this one, was considered to be a direct loss to the country. This was what was called the mercantile or commercial system. According to this theory, the leading maxim which governed the Legislature was, to make the exports to exceed the imports : and the conclusion drawn was, that the difference, or balance, must be paid for in cash by the debtor nation. When two nations traded with one another, the difference of debts between them was called the "Balance of Trade :" and, when this was in favour of England, the exchange was said to be favourable, because Bullion had to be paid to her ;

on the contrary, when, on the result of trade, payments had to be made by her, the balance of trade was said to be against her, and the exchange unfavourable, and then gold was sent out of the country. According to this theory, the prosperity, or the contrary, of the country, and the profit or loss, of foreign commerce was exactly measured, according as gold had to be received or paid, or as the exchange was favourable, or the reverse

The admirable chapter of Adam Smith on the Principle of the Mercantile System is a masterly exposition of the fallacy of this theory, and is certainly one of the soundest and best written in his whole work, from the more than usual consistency of its ideas, and the lucidity of its style. There are, however, some things relating to the subject which require further enforcement and illustration

So far from the principle of the mercantile theory being true, that gold and silver are the most profitable and desirable objects of import, the direct reverse is unquestionably true, that gold and silver are, of all objects of commerce, the most unprofitable ; and it is a certain axiom of commerce in a state of freedom, *that Bullion will not be imported until it has become unprofitable to import any other article.* There are no class of traders who derive so little profit, in proportion to the capital invested in their business, as dealers in Bullion and Money of all sorts, whether they be Bullion merchants or Bankers. Although the opinions we have alluded to above were the prevalent ideas of the age, there were not wanting a few sagacious thinkers, who discovered the truth of what we last said, and maintained the unprofitable nature of gold and silver ; but, like others who are before their age, their voice was unheeded, and the general object of commercial ambition and legislation was to accumulate treasures of gold and silver

20. There is no expression in commerce of more frequent occurrence than the " Balance of Trade," and it may be as well to give the interpretation of it generally received during the last century, and which is not yet wholly extinguished. Mr. Irving, Inspector General of Imports and Exports in 1797, defined it thus —" The common mode of considering that question has been to

set off the value of the imports, as stated in the public accounts, against the value of the exports, and the difference between the one and the other has been considered the measure of the increase or decrease of the national profit." And Mr. Hoare, a banker of eminence for twenty-two years, said—"I consider the only proper means of bringing gold and silver into this country to arise from the surplus of our exports over our imports, and that ratio or proportion which is not imported in goods, must be paid for in Bullion. In the year 1796, the imports of this country appeared to be £19,788,923, and the exports appear to be £33,454,583, which ought to have brought to this country Bullion to the amount of that difference, or £10,665,660"

We have made these extracts because they convey, in the fewest words possible, the whole ideas on the subject, and they are made by persons of great commercial eminence before the Committee of the House of Commons. It is true that Mr. Irving, who was Inspector-General of the Exports and Imports of Great Britain and the British Colonies, expressly states that the application of this principle to the whole of the British trade would, in his judgment, be extremely erroneous. We, therefore, do not bring him forward as *approving* of the theory, but only as stating distinctly and authoritatively what it was. But Mr. Hoare, a banker of eminence and long experience, adopted it; and we believe that this theory of the balance of trade still retains a hold on the minds of great numbers of persons who do not give themselves the trouble to sift it thoroughly. Nevertheless, there never existed a more complete chimera and pernicious delusion than this said doctrine of the balance of trade, nor one which has exercised so disastrous an influence on commercial legislation

21. It appears that the simplest way of arriving at an accurate conclusion on the subject, is to consider that the dealings between nation and nation are only made up of the aggregate of dealings between individuals of the nations, and we have only to consider the variety of methods in which an individual merchant may trade, to have an accurate and comprehensive idea of the commerce of the nation. Instead of dealing with figures of vast amount, which make no definite impression on the mind, and which are produced by a number of complex causes, we shall now

proceed to consider in how many different ways an individual merchant may trade with foreign countries, and we shall show, by considering the dealings of an individual, how utterly erroneous it is to suppose that an influx of Bullion is, *ipso facto*, a proof that commerce is flourishing and profitable to the country, and that, whether it is so or not, depends very much as to where it comes from, as well as a number of other circumstances

With respect to those countries in which Bullion is a native product, and to which we trade for the express purpose of obtaining it, we have already shown that unless the quantity obtained in exchange for our goods exceeds a certain amount, the commerce is not a profitable one, and that the simple fact of Bullion being remitted from them, and, therefore, though the Exchanges with them must always be in our favour, it is no proof whatever of prosperity or profit

Next, with respect to countries which do not produce Bullion, it is easy to show the extreme fallacy of the opinion that our exports should exceed our imports, and that the *difference* will be the *profit* of the country ; in many cases the precise reverse is true, that our imports should exceed our exports, and the profits are measured by the exact sum by which the imports exceed the exports, or the excess of what we receive over what we give

To prove this, let us take a simple case. Suppose a merchant in London sends out £1,000 of goods to Bordeaux : by the time they arrive there, the mere addition of freight, insurance, and other charges, will probably have increased their cost of production, or the expense of placing them where they are, to £1,050, supposing them to be sold without any profit at all. But, as the merchant would never have sent them to that market unless he expected to realise a good profit, we may assume that the market is favourable, and that they sell for £1,500, and he would probably draw against his agent for £1,200. His correspondent at Bordeaux, instead of remitting the money to England, would find it far more profitable to invest the proceeds of the goods in some native product, which would fetch a good price in England. The chief native product of that country is *wine*, so the agent would invest the proceeds of the goods, after deducting all charges for freight, commission, &c., in Bordeaux wine, and send it to

England. This wine would probably be sold at a considerable profit in the English market: say it would fetch £2,000; and, after deducting all the charges of every description on the cargoes both ways, the difference would be the merchant's profit. In this case it is quite clear that no Bullion would pass between the countries: and the merchant would apparently import more than he exported: and it is also clear that his profits are exactly estimated by the **Excess** *of the* **Value** *of the inward cargo above that of the outward one*, after deducting all charges both ways: and just as this difference is the greater so is his gain greater. In this case, as no bullion would pass from either country to the other, there would be no question of exchanges

It is clear that the London merchant's agent at Bordeaux would be governed by several considerations as to whether he would remit specie or wine to London, and he would be chiefly governed by the state of the wine markets, both at Bordeaux and London. For, supposing the goods to be sold at a good profit at Bordeaux, he must next consider the price of the wine at Bordeaux, and also what it might be expected to fetch in London. If some great disaster had happened to the vines so that there was a failure of the crops, the price of wine at Bordeaux might rule excessively high, but at the same time there might be a large stock of wine in London, and the price might not be unusually high; so that if he were to purchase wine at Bordeaux, and send it to London, it might be a loss. In such a case as this, if there were no other native product to send, he would find it more advantageous to remit specie, whatever he could sell the goods for, and then the exchange would be in favour of London; but, before the London merchant could reckon his profits, he would have to deduct the freight, insurance, &c., on the specie

Whether the transaction was profitable or not to the London merchant would entirely depend on the amount of specie he received after deducting all charges; and if he had purchased the goods he sent out from England cheap, and there was a scarcity of them at Bordeaux, he might realise high prices there, which might leave him a good profit. It would be very improbable that he could realise so much profit on that single operation as in the double one of exporting goods and importing wine. So that the import of the specie would be

less profitable to him, and the nation at large, than the import of the wine

The reasons which caused the export of specie from Bordeaux, and the import of it into England, in this case, are very plain, they were the scarcity and dearness of the native products at Bordeaux, and the abundant supply of them already in the London market. Hence, we gather that *the scarcity and dearness of native products is an infallible cause of the export of specie from a country*: on the contrary, an abundant supply of cheap products of all sorts, both foreign and native, will cause an importation of Bullion: and when products, both native and foreign, are scarce and dear, it will cause an export of Bullion

We have before observed that the exchange being in favour of a country means nothing more than that Bullion has to be remitted to it. In the case above described, the exchange at Bordeaux would be in favour of London; but this simple case is as good as a thousand to shew the extreme and dangerous fallacy of drawing any conclusion as to the advantage of the trade to England, from the simple fact of the exchange being favourable to her, and an inflow of Bullion taking place

22. The example given above is of the simplest description, and a merchant of eminence, who has correspondents in several different parts of the world, might easily multiply these operations, so as to visit many markets before the returns of his cargo were brought home. Thus, instead of having the wine sent home from Bordeaux, his correspondent might find it more profitable to send it to Buenos Ayres, and dispose of it there. The chief native product of that place is hides, and we may suppose that his correspondent there might invest the proceeds of the cargo of wine in hides, which there might be a favourable opportunity of selling in the West Indies. When the cargo arrived in the West Indies, instead of remitting the proceeds directly home, it might very well happen that, owing to a scarcity of corn at home, it might be very high there, and cheap in Canada, so he would invest the proceeds of the hides in sugar, and dispatch that to Canada, where the merchant's correspondent there would dispose of it, and purchase corn, which he would send to England

In the case just described, we observe that there are five distinct operations ; and, as we may suppose, that there is a profit upon each of them, by the time the returns for the goods, which originally cost £1,000, are brought to England, it may very well be that the corn, which forms the ultimate payment of them, may be several times as valuable as the original cargo ; and, as we have supposed the charges on each operation to be deducted before investing the proceeds in other articles, it is clear that the merchant's profits upon the whole is exactly the difference in value in England between the articles last purchased and sent home and the original cargo, after deducting all the expenses of sending home the last cargo ; and we also observe that no specie has been sent from one country to the other in the whole course of the extended operation

This example is sufficient to demonstrate the utter fallacy of the old idea, which is even yet not extinguished, of the Balance of Trade. Nothing can be more clear, that unless the value of the cargo which comes into England, in payment of the cargo that was sent out, is sufficient, not only to defray the cost of the original cargo, as well as all charges upon it and the return cargo, and leave a profit besides, the commerce could not be carried on. No English merchant could export goods unless he receives in return others of much greater value ; and the obvious consideration, that the more he gets for what he sends out, the more profitable it is to himself and the nation, is sufficient by itself to explode the old fallacy of the balance of trade. One obvious source of error is that the value of the exports from this country is estimated at the time of their leaving the country, and before the charges for freight, &c., are incurred, which must necessarily raise their selling price in the foreign market, if they are not sold at a loss, and their value in that market is expected to be considerably higher than that. On the other hand, the value of the imports is estimated, not according to their value when they left the foreign country, but what it is upon their arrival here, including all their charges upon them

23. If we suppose that Bordeaux had but one native product —wine—the chances of finding the markets, both at Bordeaux and London, in a favourable state for importing produce instead of

specie, would be limited to that single article. But if it had other products, such as olive oil, the chances would be increased of finding articles to suit the market, and the chances would evidently be multiplied according to the number and variety of its products

24. Let us take another example and let New York be the starting place. The staple products of America are breadstuffs and provisions. A merchant of New York sends a cargo of corn to Liverpool, and his correspondent there will endeavour to invest the proceeds of that in British goods, if he finds the state of the markets in England and New York will make such an operation profitable. Suppose that the price of corn is very high here, and British goods are also very high here, and very low in America, it is clear that nothing but specie will be sent. In cases where a great and unexpected dearth of corn occurs in England, and its price rises enormously high, the infallible result is to cause a great drain of specie for the time being, because our necessity for food is much more pressing and immediate than their necessity or capability of consuming our cotton or woollen goods. And the only way to arrest such drain is to effect such a reduction in the prices of British goods as shall make it more profitable to export goods than specie

25. In the cases we have hitherto been considering, we have described the operations as if merchants were left perfectly free to carry their goods whither they pleased, and were not met and obstructed by artificial obstacles purposely devised for interfering with their business, by the laws of different nations. But there are few nations, and our own among the rest, which have not habitually discouraged the importation of foreign goods, and imposed heavy duties for the specific purpose of excluding them, as they conceived the extraordinary idea that all foreign goods brought into the country were so much loss to it. Thus, the statute of William III. (1688, c. 24) says—"It hath been found by long experience that the importing of French commodities of all sorts" (enumerating them) "hath much exhausted the treasure of this nation, lessened the value of the native commodities and manufactures thereof, and greatly *impoverished* the

English artificers and handicrafts, and caused great *detriment* to the kingdom in general." If we consider the effect of these laws in one place, it will equally apply to every other ; thus, in the first instance, suppose that there are very high protecting duties at Bordeaux against British goods, as the customer must ultimately pay all the expenses and charges on the goods, it will have the effect of greatly raising the market price there, and diminishing the number of persons who can afford to buy them : and hence, as the market is so limited, a smaller quantity of goods will overstock it than if it were more extended. This will cause a much less quantity of goods to be sent from London, and it will cause a much larger proportion of specie to be remitted to pay for the productions of Bordeaux. This example shows that the inevitable effect of high protecting duties between country and country is to cause a much more frequent transmission of Bullion from one to the other than would be the case in an unfettered state of commerce ; unless, indeed, the smuggler steps in, who is the corrector provided by nature against this commercial insanity. The effect then, of prohibitive duties is to cause an inflow of Bullion ; but we must carefully guard against supposing that this inflow is a favourable sign, as it is certainly the least profitable import a merchant can receive for his goods ; and there is this very marked difference between an inflow of Bullion under the Protectionist system and under a Free Trade system, that the former is accompanied with a great dearth of foreign commodities, but the latter is an infallible sign of great abundance of them, as Bullion is never imported when men are allowed to follow their own interests, until our markets are already so overstocked that every other article has ceased to be profitable

26. The foregoing cases comprehend the different varieties of commercial transactions between this and any other country, and we gather from them the following results respecting the inflow or outflow of Bullion—

I. The cause of Bullion being imported is either when the price of goods is so **low** in England, and so **high** in the foreign market, as to tempt foreigners to send here to buy goods ; or the price of goods is so high in the foreign market, and so low in

England, that nothing but specie can be sent in payment of goods exported from England

II. The cause of Bullion being exported from England is that there is some great and pressing demand for some article in this country, and other commodities are so scarce and dear that they cannot be exported with a profit, or that the article is required in such great quantities that the foreigner cannot consume our goods which we should prefer to send in payment fast enough, and so specie must be sent, and the greater the difference in price the greater will be the drain of Bullion : or that other markets are already overstocked with our productions, which are depressed below their usual market value there. This is what is meant by overtrading ; and from this circumstance, we see that *overtrading is a sure precursor of a drain of Bullion from the country.* When there has been a great failure of the crops in this country, so as to cause a famine price, the demand for corn is so immediate and urgent that it necessarily causes a great drain of specie : and it is then of the greatest possible consequence that the prices of other commodities should be as low as possible, to enable them to be sent in payment of the necessary supplies of food, and prevent such a drain of Bullion as may disturb the whole monetary system of the country

27. Overtrading, and a **failure** of the **cereal crops** of this country, are each of them sure **causes** of a **drain** of **Bullion.** The most disastrous event for the commerce of this country is when both these circumstances happen concurrently. It is like a spring tide of disaster. The most terribly disastrous commercial crisis this country ever experienced was preceded by some years of overtrading, followed by successive failures in the staple support of the people of England and Ireland. These two adverse events together produced the calamities of 1847. We shall see that the intended effect of the Bank Act of 1844 is to provide a remedy for such a state of things by causing such a reduction in the price of home commodities, in the event of a drain of specie taking place, as to render it more profitable to export them than Bullion, and so stop the drain. Whether the Act is effective for this purpose is another question, which it is not the proper place to discuss here

28. There are some countries from which we draw articles of great necessity, but to which, from different circumstances, we do not expect to remit goods in payment. Russia was the great source of our supply of hemp, tallow, and flax, and we used to import these products to the value of £12,000,000 yearly, but, owing to the prohibitive character of her tariff, we were unable to send our own products in payment of these goods to anything like a similar amount in value. To such a country the difference must be remitted in cash, to the mutual loss of both parties ; and, unless there were other means of equalising the exchanges with different countries, the exchange with Russia would always be unfavourable to England. The chief export trade from Ireland to England was in articles of food—pigs, cattle, oats, butter. Great quantities of these came from Ireland, but the inhabitants of that country were much too poor to be able to consume an equivalent amount of English goods ; in consequence of which the difference had to be remitted in specie, and so the exchanges between England and Ireland were almost uniformly favourable to Ireland. Now, if Ireland had been sufficiently wealthy to have consumed English goods instead of specie, it is evident that it would have been far more advantageous for both countries ; for English industry would have been promoted, and Ireland would have gained a more valuable import. These two examples offer a further illustration of what we said before, that the frequent transmission of Bullion between countries which do not produce it, is a symptom of a less profitable trade than it would be if goods were transmitted

29. In the operation first described above, we have supposed it to originate with the English merchant who remits his goods to his correspondent abroad, and who reaps the profits, and the proceeds must be remitted to him after deducting the freight, charges, and commission of the agent there. But it is also probable that there will be native merchants at Bordeaux, who will send wine to England on their own account to their correspondents here, and then the whole transaction will be reversed. The English correspondent will endeavour to purchase English goods as low as he can, and if he can get them low enough to realise a profit in the Bordeaux market, he will send goods out ; but if the English

goods are too high for that purpose, he must send specie. It is also evident that, even if the goods be at no unusual height in England, still, if the market at Bordeaux be already overstocked with them, or, as it is called, "glutted," it would be useless to send more goods to force the price down still further, and the consequence will be that nothing but specie will go

From this we see that if specie be coming in from a country, it is a proof that we have already got so many of their goods that it will not pay to import any more, and if specie be going out to a country, it shows that we have already sent out so many of our goods to that market that it is already overstocked. The different barbarous laws which every country has enacted under the erroneous appellation of protection, by aggravating the price, limit the markets in every country for the products of other countries, and cause much fewer commodities to pass between nations than otherwise would, and cause the markets of any country to be much sooner overstocked than they would otherwise be. By preventing this interchange of commodities which every nation would naturally prefer, it necessitates payments in specie to a much larger extent than would be the case if commerce were free, to the common impoverishment of all parties

30. The foregoing considerations show that it is possible to carry on any amount of foreign trade without the necessity of any remittances being made in specie. In the instance above taken, the English merchant purchases goods and sends them to his correspondent abroad, who realises them, and invests the proceeds in that market, and sends them to England, and the English merchant disposes of them in England, and gains the profits there, and no specie is sent from one country to the other. Similarly, the foreign merchant sends his goods to his correspondent in England, who disposes of them there, and invests the proceeds of them in England, in English commodities, and sends them to his foreign correspondent, who gains his profit, either by selling them in his own country, or by sending them to some other market, where he may make a higher return ; and, as in the former case, no specie passes between the two. Nor is the result in any way different if the trade be conducted by the more circuitous method of three or more transactions. Hence, in a healthy state of

the markets of different countries, scarcely any specie will pass between them : and the very fact of there being a necessity for making frequent and large remittances of specie from one country to another, is in itself a proof of there being something irregular and unhealthy in the state of commerce in general : and in the state of the markets of one country or the other : either that they are overstocked or understocked : or that there is some legislative interference with the natural course of trade between nation and nation. Nothing can be more certain than that Bullion is the least profitable of any article of commerce, except from Bullion-producing countries : and that when merchants have recourse to it, it is because some disturbance has taken place in the profitable relations between supply and demand of other commodities

31. Now, supposing commerce to be in that desirable and healthy state in which no specie passes between non-bullion-producing countries, who could tell how what is called the Balance of Trade is inclined ? Who can tell what the Balance of Trade is ? Each country would show a favourable balance, taking the values of the exports and the imports at their market prices in each country. Each country would show that their imports exceeded their exports in value : that is, each would show that they had gained by their commerce : for the very simple reason, that the value of the article they received would be greater in their own market than the value of the one they gave ; and, unless it was so, it is manifest that trade could not be carried on : because all the expenses and profits of trade are provided for, by the difference in value between what they give and what they receive. Hence, unless both parties gain by the transaction, commerce cannot be carried on. But this shows that the expression "Balance of Trade" is a gigantic delusion, and it is greatly to be wished that it should be for ever exploded and laid aside, as the fountain and origin of incalculable mischief to the world, in the suicidal effort every nation has made to secure to itself that great chimera—a favourable balance

The mistake of unreflecting writers, who think that the price of foreign goods sold in this country goes into the pocket of the foreigner, consists in this, that the probability is, that the English merchant who imports these goods has already purchased them

with English goods, so that their money price goes into the pocket of the English merchant, and not that of the foreign one and is, probably, re-invested in English goods, if there is a prospect of a favourable opening for them

The fundamental fallacy about the balance of trade, which seems to have taken possession of the Legislature, was, that the interests of the State were different and opposite to the interests of individuals. They seem to have entertained the idea that every merchant had entered into a conspiracy to ruin the country, which he tried to carry into effect by becoming as prosperous himself as he could. It seems most unaccountable how long they missed the obvious truism, that the prosperity of the State is made up of the prosperity of the individuals composing it, and that every one is far keener in discerning what conduces to his own prosperity than the State can be: and that if private merchants found it to be to their individual advantage to import commodities rather than Bullion, it could not be beneficial to the State to force trade into a contrary direction

Notwithstanding the prevalent idea that foreign trade was profitable just in proportion to the money it brought into the kingdom, and that this was indicated by the so-called balance of trade, there were a few enlightened persons who saw through the fallacy and combated it. In reference to a certain "balance" which occurred in the trade between Holland and England, and which was a subject of much gratulation, Craik well observes that it would be irrational to suppose that the English must necessarily be the chief gainers by this trade, as it would be to maintain that the productive labourer must always be a greater gainer on the article he produces than the capitalist who employs him. That the Dutch were in the position of the capitalist, and the English of the labourer, and that while the Dutch had the goods the English had the money; just as while the master had the goods the workman has his wages. But that the excess of profit, or real advantage, should be with the labourer rather than with the capitalist, may fairly be presumed to be as unusual, and as little likely in the nature of things, in the case of nations as of individuals

An attentive consideration of these various methods of trading will shew what a complete phantasy the old, and still too common,

idea of the "Balance of Trade" is; and, as nothing more conduces to error and confusion in any science than a nomenclature and technical phrases which are founded upon misconceptions of the principles of that science, so nothing has exercised a more malignant influence upon legislation, and popular ideas generally, than this phrase; and it would be very desirable if some means could be taken to discontinue its use altogether. But, as it does occur in the course of trade that transactions between nations have to be settled in specie, we must now consider the operations of the foreign exchanges

The course of the foreign exchanges, then, entirely depends upon the fact of persons in one country having to make payments to persons in another country, from whatever causes these payments have to be made. And there are but two causes which influence their rates: first, the depreciation of one or both of the currencies which have to be exchanged, secondly, the relative amounts of money that have to be remitted from one country to the other

On the **Rate of Discount** *as influencing the* **Exchanges**

32. We have now to treat of a cause of the movements of bullion which has acquired an importance in modern times far exceeding what it ever did before; in fact, it is now probably more important than any other, namely, a difference in the Rates of **Interest** or **Discount** between two countries

In former times, when the communication between different places was slow and expensive, before the days of railroads and steamers, a considerable difference might exist in the rates of interest in two places, without causing any movement of bullion from one place to the other. But that is not possible now. The communication between places is so rapid now that directly the difference between the rates of interest in any two places is more than sufficient to pay for the expense of sending the bullion, an immediate flow of bullion commences from one place to the other. And this is in exact accordance with the usual mercantile principle that operates in every other case, that if the difference of price of the same article in any two markets

is more than sufficient to repay the cost of sending it from one to the other, it will be sent ; and this movement will continue as long as the difference in price continues. Now if the Rate of Discount in London is 3 per cent., and that in Paris is 6 per cent., the simple meaning of that is, that gold may be bought for 3 per cent. in London, and sold at 6 per cent. in Paris. But the expense of sending it from one to the other does not exceed $\frac{1}{2}$ per cent., consequently, it leaves $2\frac{1}{4}$ or $2\frac{1}{2}$ per cent. profit on the operation. The natural consequence immediately follows ; gold flies from London to Paris, and the drain will not cease until the Rates of Discount are brought within a certain degree of equality. It used to be the common delusion of mercantile men that gold was only sent to pay a balance arising from the sale of goods, and that therefore it must cease of itself whenever these payments were made. But this is a profound delusion. When the Rates of Discount differ so much as is supposed above between London and Paris, *persons in London fabricate bills upon their correspondents in Paris* for the express purpose of selling them in London for cash, which they then remit to Paris, and which they can sell again for 6 per cent. And it is quite evident that this drain will not cease so long as the difference in the Rates of Discount is maintained. Moreover, merchants in Paris immediately send over their bills to be discounted in London, and, of course, have the cash remitted them. Now, the only way of arresting such a drain is to equalise the Rates of Discount at the two places. These simple facts are a perfectly conclusive answer to those writers, and they are many, who complain of the variations of the Rate of Discount by the Bank of England, and suppose that it is possible to maintain a uniform Rate. Consequently, at the present day, it is the imperative duty of the Bank of England to keep a steady watch upon the Rates of Discount of neighbouring countries, and to follow these variations so as to prevent its being profitable to export bullion from this country

On Foreign Loans, Securities, *and* Remittances, *as affecting the Exchanges*

33. Besides the state of national indebtedness arising out of Commercial operations, other causes may affect the Exchanges

Formerly, during foreign wars, England, being more abundant in money and material resources than in men, used to subsidise foreign powers to a considerable extent: and the method of transmitting such a loan to the best advantage to the remitting country is an operation of considerable nicety and delicacy. To withdraw a very large amount of actual coin at any given time from a commercial country might produce the most disastrous consequences when so many fixed engagements had to be met at a fixed time

The method of operating was simply an example of what we have so fully illustrated in the preceding chapters, that the *Release of a Debt* is in all cases equivalent to a *Payment in Money*; or that $- \times - = + \times +$

Instead of transmitting vast amounts of Coin, the method always adopted in such cases is by purchasing Bills of Exchange on the place of Payment: and by operating on a number of different centres to prevent the disturbances which would arise from withdrawing too large an amount of Circulating Medium from any one place

In 1794 the English Government agreed to lend the Emperor of Germany £4,000,000, and the problem was to send the money from London to Vienna with as little disturbance as possible to the London money market

Mr. Boyd, who conducted the operation, says—"The remittance of so large a sum as £4,000,000 I considered a matter of infinite difficulty and delicacy, so as to prevent its producing any remarkable effects upon the course of Exchange. It was necessary to vary the modes of remitting, and to make use of the various means for that purpose presented by all the different Exchanges of Europe. It was not necessary to remit Bills upon Hamburg only, because it frequently happened that it answered better to remit to Hamburg upon other places, such as Madrid, Cadiz, Leghorn, Lisbon, Genoa, &c., than to remit direct upon Hamburg: and having constantly orders from Vienna with regard to the rates of the different remittances to be made, our attention was directed to the accomplishment of these orders on the best possible terms. In fine, it was necessary to take Bullion, Bills direct upon Hamburg, and Bills upon other places all into our means of remittance, and to make the most of these modes of

remittance without giving the decided preference to that mode which was the most favourable, because any one mode invariably adhered to would soon have exhausted and destroyed that mode: whereas by turning occasionally to all the modes, and not sticking too long to any one particular mode, we had the good fortune to make upon the whole very favourable remittances"

McCulloch gives another example of a similar operation: "In 1804 Spain was bound to pay France a large subsidy, and in order to do this, three distinct methods presented themselves. First, to send dollars to Paris by land: second, to remit Bills of Exchange direct upon Paris: thirdly, to authorise Paris to draw directly upon Spain. The first of these methods was tried, but found too slow and expensive: and the second and third plans were considered likely to turn the exchange against Spain. The following method, by the indirect or circular exchange, was therefore adopted:—

"A merchant or *banquier* at Paris was appointed to manage the operation which was thus conducted. He chose London, Amsterdam, Hamburg, Cadiz, Madrid, and Paris as the principal hinges on which the operation was to turn: and he engaged correspondents in each of these cities to support the circulation. Madrid and Cadiz were the places in Spain from whence remittances were to be made, and dollars were, of course, to be sent, when they bore the highest price, for which bills were to be procured on Paris, or any other place that might be deemed more advantageous. The principle being thus established, it only remained to regulate the extent of the operation, so as not to issue too much paper on Spain, and to give the circulation as much support as possible from real business. With this view London was chosen as a place to which the operation might be chiefly directed, as the price of dollars was then high in England, a circumstance which rendered the proportional exchange advantageous to Spain

"The business commenced at Paris, where the negotiation of drafts issued on Hamburg and Amsterdam served to answer the immediate demands of the State: and orders were transmitted to these places, to draw for the reimbursement on London, Madrid, or Cadiz, according as the course of exchange was most favourable.

The proceedings were all conducted with judgment and attended with complete success"

34. The most gigantic operation, however, of this nature, which ever took place, was the payment of the indemnity which France was obliged to pay to Germany, in consequence of the unfortunate result to her of the war. A most minute account of this operation was presented to the National Assembly by M. Léon Say, from which we take the following details, sufficient, we hope, to make a general outline of the operation intelligible

By the definitive treaty of peace between Germany and France, signed at Frankfort, May 10, 1871, France became bound to pay to Germany the sum of 5 milliards of francs, equal very nearly to 200 millions sterling, at the following dates—500 millions thirty days after the restoration of order in Paris ; 1,000 millions in the course of 1871 ; 500 millions on May 1, 1872 ; and 3,000 millions on March 2, 1874, together with 5 per cent. interest on the last three milliards

Payment might be made in gold or silver, notes of the Banks of England, Prussia, Holland, Belgium, or first class Bills of Exchange

The thaler was valued at 3·75 francs, and the German florin at 2·15 francs

All bills not domiciled (*i.e.*, made payable) in Germany, were to be valued at their net proceeds, after deducting all costs of collection

It was subsequently agreed that the portion of the Eastern Railway of France, situated in Alsace, should be accepted in compensation, or set off, to the debt to the amount of 325 millions ; also that 125 millions should be received in notes of the Bank of France ; and the sum of 98,400 francs, which remained due to the city of Paris after the payment of the indemnity, should be received as a set off against the debt of France

Besides the indemnity payable by France, the city of Paris had to pay an indemnity of 200 millions of francs ; 50 millions in specie ; 50 millions in notes of the Bank of France ; 37½ millions in two months' bills on Berlin, at the exchange of 3·75 francs for the thaler ; and 63 millions in bills upon London, at six and

fifteen days' sight, at the exchange of 25·20 francs for the pound sterling

The bills upon London were bought at the exchange of 25·3488 ; and those on Berlin at an exchange of 3·7325 ; Paris, therefore, lost 14·88 cents on each pound sterling, and gained 1·75 cent. on each thaler. The total cost of the indemnity was 1,965,240·30 francs, and, after it was all settled, there remained a balance of 98,400 francs in favour of Paris, which, as above said, was taken as a set off in favour of France

The total operation was divided into two parts ; the payment of the first two milliards, and that of the last three

The first thing to be done was to put the Government in funds to effect the payment. To do this they negotiated a loan with the Bank of France of 1,530 millions, and created two public debts of 2,225,994,045, and of 3,498,744,639 francs

The first loan was authorised by a law of June 21, 1871 ; it was opened to public subscription on the 27th, and made payable in 17 monthly instalments

The second loan was authorised by a law of July 15, 1872 ; the subscription was opened on the 28th, and made payable in 21 monthly instalments

On July 31, 1874, the first loan was fully paid up, and of the second only 7,136,000 francs remained due

The Government being thus in funds commenced its exchange operations, and the debt was finally liquidated in the following way :—

By Compensations .. .. : ..	325,098,400 francs
By Bank Notes and German Money ..	742,334,079 francs
By Bills of Exchange	4,248,326,374·26 francs

To effect this stupendous operation all the great bankers in Europe were invited to assist, and in June, 1871, a London agency was opened to assist and receive subscriptions and bills. Other agencies were opened at Brussels, Amsterdam, Berlin, Frankfort, and Hamburg. The Treasury gave its correspondents $\frac{1}{4}$ to $\frac{1}{2}$ per cent. commission on its first loan, and on the second 1 per cent. at first, which was reduced to $\frac{1}{2}$ and $\frac{1}{4}$. In the first loan the

pound sterling was received at 25·30 ; the thaler at 3·75 ; the Frankfort florin at 7 florins for 4 thalers ; the marc banco at 2 marcs for one thaler ; and Belgian paper at par. In the second loan the pound sterling was received at 25·43 ; the thaler at 3·76 ; the Frankfort florin at 2·14⅞ ; the marc banco at 1·87⅞ for 1 thaler ; and Belgian paper at par

The exchange operations in London began in June, 1871, and lasted till September, 1873. The exchange was at 25·21¼ in June, but, in consequence of acting somewhat too precipitately, it rose to 26·18¾ in October. In 1872 the lowest was 25·26¼ in April, and the highest 25·68½ in November. In 1873 the lowest was 25·33 in March, and the highest 25·57½ in June. The mean average of the whole was 25·4943

In the course of the operation, the Treasury purchased 120,000 foreign bills, amounting in the whole to rather more than 4½ milliards. It opened subscriptions in foreign countries, and received foreign bills in payment of the loan opened in Paris. The subscriptions to the first loan comprised 213 millions of francs, and the subscriptions to the second 389 millions, in foreign bills

M. Léon Say then gives some details respecting the three classes of payments above named as compensations ; bank notes and German money ; and Bills of Exchange

The details respecting the compensations need not detain us ; but with regard to the second, it comprised the following items :—

Notes of the Bank of France	125,000,000 francs
German Bank Notes and Money ..	105,039,145·18 francs
French Gold Money	273,003,058·10 francs
French Silver Money	239,291,875·75 francs

The German bank notes and money were collected from the sums which the German armies had brought with them in the invasion

The third class, viz., Bills of Exchange, included German bills taken at their full value, 2,799,514,183·72 francs, and other foreign bills taken at their net proceeds, after deducting all charges, 1,448,812,190·54

M. Léon Say then gives some details of the commercial operations undertaken to support these gigantic payments, but

he at once acknowledges that it is impossible to explain their complete theory, on account of a new article of merchandise which has only recently been introduced into commerce

"It is not possible to explain the operations of a portfolio which contains 120,000 bills of a value exceeding 4 milliards

"There were all sorts of bills, from less than a thousand francs to more than five millions ; some mentioned the purchase of merchandise ; others appeared only to be fabricated for the purpose, and destined themselves to be covered at maturity by bills which were to be created to pay real transactions

"Bank Credits, the paper circulating between head offices and branches, circular exchanges, payments for invoices, the remission of funds for the ultimate purchase of merchandise, the settlement of debts abroad to France under the form of coupons, shares, and commercial obligations, were all in these effects, making up the most gigantic portfolio which was ever brought together

"After all this, to give a detailed classification is an absolutely impossible task. One can do no more than determine the classes of the operation, and make some general remarks on these classes, and on the importance and meaning of the business effected on each of them

"Fifty years ago there were no other international operations than merchandise and money ; merchandise, gold, and silver, were the only subjects of export and import ; the balance of commerce was settled in gold and silver. Everything which was bought from the foreigner was paid for in gold or silver, if not in merchandise

"One might find, then, in the statistics of the Custom House *data* more or less exact, but at least real *data*, of the course of business between two countries ; but things have greatly changed within fifty years

"There has appeared, especially within the last twenty-five years, in international commerce, what may be called a *new article of export*, an article which in every country has acquired a greater importance than any other, and which has had the result of completely distorting the meaning of Custom House returns. *This new article is Securities ;* it is transmitting across the frontiers of different States the property of Capital by representation, which is easy to transport, viz., these Capitals of

the form of bills of exchange, public funds, shares and obligations of railways and other companies

"To understand the real course of international business, it is necessary to know not only the imports and exports of merchandise, the imports and exports of specie, *but also the imports and exports of Securities;* and this last class, which is the most important, and which is the key to the two others, escapes all kinds of returns"

This is exactly the doctrine we have been enforcing for so many years, and shows the profound error of those Economists who exclude the Incorporeal Property from the Title of Wealth, and of those who write books on Economics, and who are either ignorant of, or who ignore, its existence; for, as we have said, in such a country as this it is the largest class of property of any. M. Léon Say then gives some notices of the imports and exports of merchandise, specie, and securities, which we need not enter on

We will give, however, the final result of the operations, showing the pieces in which the debt was liquidated :—

	Payment of Two Milliards	Payment of Three Milliards
Notes of Bank of France	125,000,000	—
French Gold	109.001,502·85	164,000,555·25
French Silver	63,016,695·	176,275,180·75
German Money and Bank Notes ..	62,554,115·93	42,485,029·25
Thalers	312,650,509·01	2,172,663,212·03
Frankfort Florins	25,816,752·37	209,311,400·42
Marcs Banco	116,575,592·13	148,641,398·27
Reichs Marcs	—	79,072,309·89
Dutch Florins	250,540,821·46	—
Belgian Francs	147,004,546·40	148,700,000
Pounds sterling	624,699,832·28	12,650,000
	1,836,860,367·43	3,153,800,085·86

Now, we observe that the whole of the above sum that was paid in French specie was 273 millions in gold, and 239 millions in silver, being somewhat over 20 millions sterling, whereas $4\frac{1}{4}$ milliards, or 160 millions sterling, were paid by Bills of Exchange. This fact is especially worthy of notice, because some financial writers maintained that, if England had met with a similar misfortune, she could not have paid such a ransom, on account of the small quantity of specie in the country. These figures, however,

show that this is a complete delusion, as England could pay by bills, if ever she were driven to such a dire extremity, to a far larger amount than France ; and we see that in France herself, where specie is alleged to abound, the part that was paid in specie was less than an eighth part of the payment by bills

M. Léon Say notices, as one of the results of the war, the liquidation of the famous Bank of Hamburg, founded in 1619, in imitation of those of Venice and Amsterdam, for the purpose of securing a uniform standard of mercantile payments, by means of credit in its books, which was called the marc banco

After the establishment of the German Empire it was resolved to adopt a gold currency ; and the marc banco of Hamburg (which was absorbed in the Empire) violated the new Imperial system in two ways ; first, it was a local money, and all local moneys were to disappear before the Imperial currency ; and it was silver, whereas the Imperial standard was gold

The marc banco, which was worth a half thaler, or 1·87½ franc, was abolished by law, and the reichs thaler imperial, of 0·25 franc, was substituted. The bank was ordered to liquidate all its accounts in fine silver by February 15, 1873 ; and after that, anyone who had claims against the bank was credited with a half thaler for the marc

The preceding are examples of loans raised in this country with the consent of the Government, and, consequently, every care was taken to have them transmitted in such a way as to produce as little disturbance of the exchanges as possible. But it has become very common for foreign Governments to raise loans in England without any sanction of the Government at all. During the late unhappy war in America, both the belligerent Governments sent over enormous quantities of their securities, or stock, to be disposed of for specie in the European markets for what they would fetch, and the proceeds were remitted either in cash or bills. So also vast numbers of foreign companies of all sorts seek to raise capital in England

There is, lastly, to be considered the sums required by residents abroad for their expenditure. The drafts of the great English and Russian families on their bankers at home affect the exchanges exactly in the same manner as any other drafts

The India Council Bills

35. The most extensive operations of this sort are the India Council Bills : or the Bills which the Council of India in London draws upon the Governments of the different Presidencies

India has enormous and continuous payments to make in London on the following accounts :—

1. The establishment of the India Office in London, and of the Engineering College at Cooper's Hill, is maintained by India

2. The interest on the Public Debt is chiefly payable in London

3. The Military and Civil Pension List

4. The Military charges for the transport of British Troops to India, and military stores of all sorts

5. Civil Stores of all sorts : materials for Railways, Telegraphs, &c.

In 1880-81 the sum total of Disbursements to be made in London exceeded 18 millions sterling. And these charges are all payable in fixed amounts in Gold

To meet these charges the Council of India in London draws every Wednesday a certain amount of Bills on the Governments of the different Presidencies

These sums are payable in Gold in London ; but the Governments in India pay in Silver Rupees : it is therefore requisite to draw for such a sum in Rupees as shall produce the required amount in Gold in London

It is for this reason that the relative *Value* of Gold and Silver is of such deep importance to the Government of India

Every Wednesday the India Office sends tenders to the Bank of England—usually amounting at present to about 35 or 40 crores of rupees, or about £350,000, offering to sell that amount of Bills at the Current Market Price of Silver

These tenders are open to all the world : just as the Mint is open to any one to have his bullion coined ; but practically speaking the tenders are confined to a certain number of Indian Banks : who buy these Bills either on their own account, or on account of their customers, who have payments to make in India. And as a matter of fact, the balance of payments to be made by the merchants usually agrees pretty nearly with the amount of payments to be made by the Indian Government in London

The great importance of these Bills, however, is the effect they have on the Market Price of Silver: and they have in fact been one of the most potent factors in recent years in causing the diminution in the Value of Silver as compared to Gold

Selling Bills for Silver in the London Market is in reality exactly the same thing as selling so much Silver itself. Consequently, as Silver is nothing but a commodity in England, the more of it which is pressed for sale, the lower the price must go

The Government Rupee, which since 1862 has replaced the old Company's Rupee, being however exactly of the same weight and fineness, is 180 grains troy Silver $\frac{11}{12}$ fine: or 165 grains fine silver to 15 grains alloy

The British Shilling, coined at present at the rate of 66 to the lb. weight of Silver Bullion, contains $80\frac{5}{11}$ grains of fine silver: hence the Florin contains $161\frac{5}{11}$ grains of fine silver

When the price of British standard Silver is 60*d.* per ounce the Rupee is worth 1*s.* 10·2973*d.*, or nearly 1*s.* 10·3*d.* sterling

In recent years several causes have combined to reduce greatly the Market Price of Silver: these are the greatly increased production of the metal: the demonetisation of Silver by Germany: the vast amount of Paper Money on the Continent: and the greatly increased amount of the India Council Bills

The more India Council Bills are sold, the more the Diminution in the Value of Silver is increased: and as the Council must sell a sufficient quantity to produce the required amount in Gold: a still larger amount must be sold to make up for their diminished Value: and consequently the heavier is the taxation on the people of India to meet the deficiency

To estimate truly this deficiency it is necessary to consider the relative Value of Gold and Silver at some fixed era

In converting Indian accounts into sterling, the Rupee is conventionally valued at 2*s.*, or the 10th of a £: and from 1850 to 1857 did really continue about that price: but since then there has been a rapid declension in its value, coincident with the increased production of the metal: the demonetisation of silver by Germany: and the great increase of the India Council Bills

It is evident that no correct estimate of the Diminution of the Value of Silver as compared with Gold can be made unless the era of their Value at Par be agreed upon

Statement showing the Disbursements in England made by the Government of India: the Bills of Exchange drawn on India: the average rate of the Rupee: and the Cash Balances of the Government of India in England: and the average Price of Standard Bar Silver per ounce: from 1834–35 *to* 1880–81.

Year	Disbursements during the Year	Bills of Exchange drawn on India	Average Rate obtained for Bills on India	Cash Balance at the close of the Year	Average Price of Bar Silver per oz.
	£	£	s. d.	£	
1833–34 ..	—	—	—	3,772,901	—
1834–35 ..	5,559,723	732,804	1 10 3/4	3,625,488	59 15-16ths.
1835–36 ..	3,367,982	2,045,254	1 10 5/8	5,405,807	59 11-16 „
1836–37 ..	8,475,317	2,042,232	1 10 3/4	2,737,440	60
1837–38 ..	3,093,923	1,706,184	1 11	4,246,960	59 9-16 „
1838–39 ..	5,905,984	2,346,592	1 11 1/8	2,928,132	59 1/2
1839–40 ..	3,315,450	1,439,525	1 11 1/2	2,020,227	60 3/8
1840–41 ..	3,356,741	1,174,450	1 11 1/2	1,038,299	60 3/8
1841–42 ..	3,757,787	2,589,283	1 10 5/8	1,687,561	61 1-16 „
1842–43 ..	3,382,996	1,197,438	1 11 1/2	988,199	59 7-16 „
1843–44 ..	4,023,327	2,801,731	1 11	1,407,791	59 3-16 „
1844–45 ..	3,571,345	2,516,951	1 9 5/8	1,290,787	59 1/2
1845–46 ..	4,210,910	3,065,709	1 9 3/4	1,348,494	59 1/4
1846–47 ..	3,984,261	3,097,042	1 10 5/8	1,069,499	59 5-16 „
1847–48 ..	4,016,537	1,541,804	1 10	727,755	59 11-16 „
1848–49 ..	4,231,535	1,889,195	1 9 1/8	1,344,431	59 1/2
1849–50 ..	4,167,705	2,935,118	1 10 1/2	2,106,977	59 3/4
1850–51 ..	3,862,558	3,236,458	2 0 1/4	2,756,460	60 1-16 „
1851–52 ..	3,510,829	2,777,523	2 0 1/8	2,365,848	61
1852–53 ..	3,796,802	3,317,122	1 11 7/8	2,210,357	60 1/2
1853–54 ..	4,369,009	3,850,565	2 0 1/8	2,410,280	61 1/2
1854–55 ..	4,272,589	3,669,678	1 11 7/8	4,767,582	61 1/2
1855–56 ..	5,036,793	1,484,040	2 0 1/8	3,431,553	61 5-16 „
1856–57 ..	4,983,819	2,819,711	2 0 1/8	3,041,944	61 5-16 „
1857–58 ..	2,354,728	628,499	2 0 1/8	3,351,600	61 3/4
1858–59 ..	13,470,617	25,901	— *	2,819,398	61 5-16 „
1859–60 ..	15,253,578	4,694	— *	4,196,093	62 1-16 „
1860–61 ..	10,646,185	797	— *	2,653,063	61 11-16 „
1861–62 ..	11,242,685	1,193,729	1 11 7/8	5,733,711	60 13-16 „
1862–63 ..	10,863,137	6,641,576	1 11 7/8	5,248,910	61 7-16 „
1863–64 ..	16,818,982	8,979,521	1 11 7/8	4,596,274	61 3/8
1864–65 ..	9,480,062	6,789,473	1 11 7/8	3,914,891	61 3/8
1865–66 ..	10,419,741	6,998,899	1 11 3/4	2,818,780	61 1-16 „
1866–67 ..	10,924,952	5,613,746	1 11	4,098,779	61 1/8
1867–68 ..	12,681,606	4,137,285	1 11 1/8	2,833,009	60 9-16 „
1868–69 ..	13,661,553	3,705,741	1 11 1/8	3,025,981	60 1/2
1869–70 ..	14,509,939	6,980,122	1 11 1/4	2,892,483	60 7-16 „
1870–71 ..	13,523,477	8,443,509	1 10 1/2	3,305,972	60 9-16 „
1871–72 ..	13,486,813	10,310,339	1 11 3/8	2,821,091	60 1/2
1872–73 ..	13,831,718	13,939,095	1 10 3/4	2,998,444	60 5-16 „
1873–74 ..	15,532,844	13,285,678	1 10 7/8	2,013,637	59 1/4
1874–75 ..	14,480,643	10,841,615	1 10 1/8	2,796,370	58 5-16 „
1875–76 ..	14,356,598	12,389,613	1 9 5/8	919,899	56 7/8
1876–77 ..	15,696,372	12,695,800	1 8 1/2	2,713,967	52 1/2
1877–78 ..	15,904,685	10,134,455	1 8 3/4	1,076,657	54 13-16 „
1878–79 ..	18,739,711	13,948,565	1 7 3/4	1,117,925	52 9-16 „
1879–80 ..	18,200,357	15,261,810	1 8	2,270,107	51 1/2
1880–81 ..	18,118,800	15,239,677	1 8	4,128,187	52 1/4
Total ..	429,453,735	242,466,548	—	—	—

* In consequence of the Mutiny it was necessary to refrain from drawing on India in these years.

On Monetary *and* Political Convulsions *as influencing the* Exchanges

36. As an immediate consequence of the preceding principles, it follows that a Political or Monetary Convulsion in any country will immediately turn the foreign exchanges in favour of that country, if such an event is not prevented by the issue of an inconvertible paper currency. The reason is plain ; any political or monetary convulsion is attended by a great destruction of *Credit*. Now, that Credit, while it existed, performed the functions of money, but as soon as it is destroyed there is an intense demand for money to fill the void. Money rises enormously in value. Multitudes of persons are obliged to sell their goods at a sacrifice. The consequence is that money, having risen greatly in value, both with respect to goods and debts, an immense quantity will flow in from neighbouring countries. Thus in 1800-2, there was a great commercial crisis at Hamburg. The rate of discount rose to 15 per cent. That immediately drained the bullion from the Bank of England. In 1825 there was a great commercial crisis in England. For a considerable period the Bank, by making extravagant issues at a low rate of discount, had turned the foreign exchanges against the country. But no sooner did the crisis occur in December than the foreign exchanges immediately turned in favour of it. Exactly the same thing happened in 1847. No sooner had the crisis in that year fairly set in than the exchanges turned in favour of the country. In the French revolution in 1793, and subsequent years, immense quantities of inconvertible paper were issued, which kept all the French exchanges in a very depressed state. In 1796 this Paper Currency was annihilated, and the exchanges immediately turned in favour of France. The same thing was observed in 1848. Things were to be had so cheap then that multitudes of persons went over to buy

On the Means *of* Correcting *an Adverse* Exchange

37. The preceding paragraphs show upon what complicated causes these great movements of bullion depend which produce

such important consequences. There are three great Economic Quantities—**Products, Bullion,** and **Debts**—all seeking to be exchanged, all flowing from where they are cheaper to where they are dearer

But all this vast superstructure of Credit—this mighty mass of exchangeable property — is based upon **Gold Bullion.** Different methods of doing business require different quantities of Bullion ; but, however perfect and refined the system may be, we must come at last to the basis of Bullion as its moderator and regulator. If, therefore, the Bullion be suffered to ebb away too rapidly, the whole superstructure is endangered, and then ensues one of those dreadful calamities—a monetary crisis

We have endeavoured to explain the different causes which produce an adverse exchange, so that if one takes place the proper corrective may be applied. If it be caused by a Depreciated Currency, there is no cure but a restoration of the Currency to its proper state

When, however, it arises from a balance of indebtedness from commercial transactions, there are but two methods of correcting it — an Export of Produce, and **a Rise in the Rate of Discount**

It used to be a favourite doctrine that an adverse exchange was in itself an inducement to export on account of the premium at which the bills could be sold. What truth there was in this doctrine can only be known to those actually engaged in such operations. But a very much more certain means of producing an export of goods is *a lowering of their price*

This was one of the fundamental objects of the framers of the Bank Act of 1844. They truly observed that the prices of goods had often been unduly inflated by the excessive creation of credit, while gold was rapidly flowing out of the country. Thus, when prices were kept too high here, nothing but gold would go. One object of the Act was, therefore, by causing a gradual and compulsory contraction of Credit as Bullion ebbed away, to lower the prices of goods and encourage an export of them

The reasoning of the framers of the Act was undoubtedly correct in that respect. But the only thing is, whether the same object may not be attained another way. This is not the place to discuss fully the policy of that Act, because there are several

other conflicting theories involved in it, which we cannot fully discuss until we come to the consideration of a commercial crisis

It is sufficient to say here that all the objects of that Act are obtained by paying proper attention to raise the Rate of Discount as rapidly as Bullion flows out. If the Directors of the Bank had understood and acted upon that principle, there never would have been any necessity for the Act. It is true we cannot blame them too much, as before 1833 they were prohibited by law from raising it above 5 per cent., a rate wholly inadequate to check a great outflow ; and for many years there was a great prejudice against doing so

We have observed that a difference in the rate of discount between any two countries more than sufficient to pay for the transmission of bullion causes a flow of bullion from one to the other. But it must be remembered that, as all the cost of the transmission both ways falls upon the operator, the difference will be more considerable than might appear at first sight. And, if they are three months' bills, of course the profit reaped will be only one-fourth of the apparent difference. Thus, Mr. Goschen says, there must be a difference of 2 per cent. between London and Paris before the operation of sending gold over from France for the sake only of the higher interest will pay. And between other continental cities, of course, the difference may be much greater

But whatever the difference may be, the *method* is absolutely certain. Directly the rate of discount rises here, people cease to export bullion from here, and the continental bankers and brokers increase their demand for English bills. And as the rate rises the demand will increase, until at last the price reaches the specie point, and gold begins to flow in ; and as the rate rises more, more powerful will be the attraction, until at last the necessary equilibrium is restored between Bullion and Credit

CHAPTER IX

ON THE RISE AND PROGRESS OF BANKING IN ENGLAND UNTIL THE RENEWAL OF THE BANK CHARTER IN 1800

1. Banking, in the modern sense of the word, had no existence in England before the year 1640. Up to that period merchants had been, for a considerable time, in the habit of depositing their bullion and cash in the Mint in the Tower, for convenience and security, under the guardianship of the Crown. Eleven years had elapsed since Charles I. had dissolved his third Parliament—eleven years crowded with incidents of the deepest interest in the history of the human race. The King and the Parliament parted with feelings of mutual exasperation, and the Monarch gave very plain intimation that henceforth he meant to have no more of them. From that time he and Strafford were engaged in a deliberate and systematic attempt to establish an absolute despotism on the overthrow of the ancient constitution of England. For a little while the King was triumphant—wicked judges gave judgment against Hampden. Laud established an Anglican popedom on the banks of the Thames. Everything seemed to favour the design, and, humanly speaking, there is every probability that the eminent ability of Strafford would have been ultimately successful, when an incident occurred which destroyed the labours of so many years, and was the moving cause of a train of consequences which ended in the destruction of the monarchy and the church. The republican constitution of the Scottish church was an object of hereditary antipathy to the King ; and his advisers, with that suicidal intemperance which is the invariable characteristic of ecclesiastic despots, thought that the time had now come to force a prelatic liturgy upon the nation. The Scotch, with fierce determination, rushed to arms in defence

of their ecclesiastical liberty, and the King did not hesitate to accept the alternative of civil war

2. After some indecisive skirmishing, a treaty was at length agreed upon, probably with little sincerity on either side. But an accommodation of some sort was then an absolute necessity to the King. His first army had exhausted his scanty and ill-managed exchequer. It had cost him £300,000 ; not only all the money that had been laid up was wasted, but the revenue had been anticipated. The enemy were proud and insolent, the army corrupt and disheartened, the country mutinous, and inclined to the rebels, and the Court, according to Clarendon, were all three. The peculation that went on would be something incredible if it was not said on such excellent authority. The King thought he might rob every one else, so the officers of the revenue thought they had an unlimited license of robbing him ; of the sum of £200,000, raised from the people, only £1,600 reached the Exchequer. The King was in despair, when he happened to intercept a treasonable correspondence between the Scotch and the King of France. At length, he thought, he might venture to call a Parliament. The English nation would surely be roused to indignation at such flagrant treachery

3. The writs were issued in December, 1639, for the Parliament to meet on the 13th April, 1640. Notwithstanding the national exasperation at the proceedings of the King during the preceding twelve years—notwithstanding that, by way of bravado, and to induce people to believe that the Parliament was called entirely through the King's grace and good will, and not through necessity, ship money was levied with the same severity, and the ecclesiastical courts maintained their usual cruelty—the nation were sincerely anxious for peace and moderation. Under the influence of these feelings they returned a House of Commons wishful to reform abuses, but composed of persons free from party engagements, afraid of all violence, secret combinations, or doing anything to hazard the peace of the country. Clarendon bears testimony that there was not the least approach to any irreverence to the Crown, that it managed all its debates and behaviour with wonderful order and sobriety, and that it was exceedingly well-

disposed to please the King, and to do him service. In a debate on a case where the Lords had undoubtedly committed a gross breach of the privileges of the House, there was not an angry or offensive word spoken ; and when an obscure member made a sneering remark upon the bishops, he met with no encouragement

4. But the evil genius of the King prevailed. The unhappy Monarch, utterly unconscious of the momentous nature of the problem which was in course of solution, quarreled with the Parliament, which was his last hope of salvation. In a fit of indignation that it did not instantly submit to his haughty demands, and vote an enormous supply with the readiness of eastern slaves, he dissolved it within three weeks of its meeting, without having passed a single Act ; to the profound grief and despondency of all who were anxious for peace—to the gloomy delight of those sterner spirits whose souls thirsted for vengeance for the tyranny of years. No sooner was the deed done than he was seized with alarm and regret, and endeavoured to recall it, but it was too late. No supplies had been voted, but an invasion was imminent, and he was driven to devise expedients for raising money. He opened a voluntary loan, and in less than three weeks £300,000 were paid into the Exchequer, chiefly by the Catholics. But this was quite inadequate to his necessities, and he resorted to other more discreditable means of raising money. He bought up an immense quantity of pepper from the merchants on credit, and immediately sold it at a heavy loss for ready money. It was debated for several days at his Council to coin £300,000 of base money, with 3*d.* of silver in the shilling, but the plan was finally rejected owing to the speech of Sir Thomas Rowe, a noble argument, which might have been studied with advantage nearly two centuries later. Besides this, the King seized the merchants' Bullion and cash in the Tower, to the amount of £120,000.

5. The merchants were in consternation, as this cash was the provision they had made to meet their bills. They immediately met, and drew up and presented the strongest remonstrance to the Council. They pointed out the flagrant iniquity and impolicy of

such a proceeding, and after the matter had been debated a whole day at the Council, they finally agreed to let the King have £40,000 upon receiving adequate security for its repayment with interest. The security was given, and the whole of the principal and interest was ultimately repaid to them. But, although they had succeeded in this instance in saving their property, the prestige of the Royal honour was gone : they were too wise to trust their money again to such precarious custody, and they were obliged to keep it at home under the care of their own clerks and apprentices

6. But their treasures were no safer than before. The plebeian cashiers were more dishonest than the King. In process of time as the war went on, these gentlemen of the quill were seized with a martial ardour ; they deserted their desks in multitudes to join the army, and carried off with them their masters' cash. Others lent out their master's money clandestinely to the goldsmiths at interest at 4*d.* per cent. per diem, which they kept to themselves. The goldsmiths, as might be expected from their business, had acuter perceptions with respect to the value of the Bullion in the coin than the public generally. The money coined during the commotions was of very unequal weight, sometimes as much as 3*d.* difference in the ounce, and most of it heavier than it ought to have been according to the relative value of the metals abroad. The goldsmiths did, what always will be done under such circumstances, they bought up all the heaviest coins, and melted them for exportation. Moreover, they began to lend out at interest the money that thus came into their hands. They advanced great quantities of money to merchants and others, weekly, or monthly, at high interest, and began to discount their bills. Finding this to be very profitable, they began to attract deposits to themselves, by offering interest for them, and allowing the depositors to have repayment whenever they pleased. People found it much more convenient to leave their money with the goldsmiths, where they could have it whenever they pleased, as well as their interest, than to lend it out on real or personal security. They soon received the rents of all the gentlemen's estates, which were transmitted to town. Five or six stood pre-eminent among their brethren, and Clarendon

says that they were men known to be so rich and of so good reputation, that all the money of the kingdom would be trusted or deposited in their hands. *And they then first came to be called* BANKERS

7. Their command of ready money soon brought them a much higher customer than the merchants. Notwithstanding the fame and the strength of the Protector's Government, and his unquestionable sincerity in wishing to govern with free parliaments, he and they were unable to agree any better than his Royal predecessor had done with them. They were jealous of his power, and kept him in a constant state of financial embarrassment. He then applied to the "Bankers," and they advanced him money in anticipation of the supplies. They thus became almost necessary to the Government

8. The position the bankers had gained under the frugal government of Cromwell was not lost under that of his dissolute successor. The first care of the restored monarch was to disband the terrible Republican armies. But they required to be paid off, and some hundreds of thousands of pounds were required to be got together in a few days. The slow receipts of the taxes were quite inadequate to effect this, and the Ministers were compelled to have recourse to the bankers, and they were so well satisfied at their proceedings that they declared the King's affairs could not be carried on without their assistance

9. Their method of doing business with the Crown was as follows. As soon as the supplies were granted, they were sent for to attend the King. He, having consulted his Ministers as to what immediate sums were required, desired them to be called in, and they were then informed what ready money would require to be provided by such a day. They were then asked how much they could lend, and what security they would require. Each answered according to his several ability, for there was no joint stock among them, one perhaps, £100,000, another more, another less. They were desirous of having 8 per cent. for their money, which the King and his ministers were quite ready to give, as a reasonable remuneration ; but, upon further consideration, they

determined to leave it to the King's own bounty, lest it might afterwards be turned to their disadvantage, mentioning, at the same time, that they themselves paid 6 per cent. for it to their customers, which was known to be true

10. They then received an assignment for the payment of the first money that came in under the Act of Parliament, or tallies upon such other branches of the revenue as were least charged. But even this was no security, as the King and the treasurer might divert these payments to other purposes. "Therefore," says Clarendon, "there is nothing surer but that it was nothing but the unquestionable confidence in the King's justice and the treasurer's honour and integrity, which was the true foundation of that credit which supplied the necessities of the Government. The King always treated them very graciously, as his very good servants, and all his ministers looked upon them as very honest men." We shall soon see how their confidence in the King's honour was repaid

In 1663, Charles II. issued a splendid gold coinage of £5, £2, and 20*s.* pieces; the latter were called Guineas, as they were made of gold brought from the Guinea coast by the African Company. They were struck to be equivalent to twenty shillings in silver, and thus to represent the £, or POUND, in gold. The pound weight of Crown gold was ordered to be cut into $44\frac{1}{2}$ guineas, and continued to be so as long as they were coined

11. It belongs to the general historian to relate the terrible downfall of England's greatness in eight years from the death of Cromwell. The year 1667 may be considered as the nadir of the national humiliation. For the first, and we may devoutly trust with Macaulay, for the last time, the citizens of London heard the sound of hostile cannon. With extraordinary infatuation, the Government rushed into a war with Holland, whose capital had illuminated when the news arrived of the death of their terrible antagonist, Cromwell, and little boys ran about the streets, crying that the devil was dead. Notwithstanding the unexampled magnitude of the supplies voted by Parliament, they were all embezzled by the courtiers, who made fortunes while the sailors mutinied for want of pay, and the ships were unseaworthy. The

Dutch destroyed Sheerness and Chatham, burned the ships lying there, and insulted Tilbury

12. Nothing could be more disgraceful and humiliating than the misconduct which led to this disaster but the wild despair and ridiculous consternation that took possession of the people of London when they heard of it. The King alone, who never wanted personal courage, and the Duke of York, kept their composure, and put to shame the cowardice of a general officer, who thought himself one of the greatest soldiers in Europe, who declared the Tower not to be tenable, and refused to defend it. Every one, in consternation rushed to demand his money from the bankers. It was known that they had lent it to the King, and the people believed that the regular payments out of the Exchequer could not be made. To quiet the public alarm, the King, on the 18th June, issued a proclamation to say that the payments of the Exchequer would continue as usual, and stating that it was his steadfast resolution to preserve inviolable to all his creditors all the securities and assignments made for repayment of their advances ; that he would not on any occasion whatever permit any alteration or interruption of these securities. He moreover said that he held this resolution firm and sacred in all future assignments and securities to be granted by him upon any other advances of money for his service, by any person on any future occasion

13. The insults and ravages of the Dutch were annoying and disagreeable, but they were inflicted by a brave enemy. Charles II. and his Ministers plunged the nation into depths of disgrace a thousand times more humiliating. He sold himself, his country, her honour and greatness to the King of France, and for 20 years England suffered an eclipse in European politics. The public indignation at the ravages of the Dutch demanded a scapegoat, and it was appeased by the sacrifice of Clarendon. Soon afterwards the King astonished and delighted the nation by entering into the Triple Alliance with the very people he had so lately been at war with, and Sweden. It was ostensibly to curb the overweening ascendency of France, and to maintain the Protestant religion. While thus reaping popularity at home and

respect abroad for this unwonted display of firmness and magnanimity, which revived the memory of Cromwell, the infamous traitor signed a secret treaty with Louis, binding himself to re-establish the Roman Catholic religion in England, to unite with him, and destroy the very people with whom he was so ostentatiously in alliance. Bad as the Cabal Ministry were, the indelible infamy of this transaction was peculiarly personal to the King. He himself went to Dover to negotiate it; it was he who suggested the most disgraceful articles, and, abandoned as the Ministry were, he thought only two of them sufficiently wicked to be entrusted with their knowledge. The Treaty was signed in May, 1670

14. It was impossible to prevent some hints of what was going on reaching Holland. De Witt and the States took alarm at the recall of Temple, whose character for honour and integrity stood so high that his presence was considered a sufficient guarantee of the fidelity of England. The King ordered him to leave his family at the Hague, and promised his speedy return. Parliament met in October. The King left the Lord Keeper to explain his views to them. The Keeper expatiated upon the King's pleasure in meeting his Parliament, the immense growth of the power and navy of the King of France, the King's alliance with the Dutch, the neglected and feeble state of the navy, and the necessity of putting it in a position to cope with that of France. He ended by demanding a supply of £800,000 to fit out 50 ships of the line, to make him a match for his neighbours. The House eagerly voted him the supply asked for, and added to it a long homily on the growth of Popery, and earnestly petitioned the King to take measures to suppress it. The King took the subsidy, instantly prorogued the Parliament, and, with the treaty of Dover in his pocket, published a severe proclamation against Papists, boasting that he had always adhered to the true religion as established, against all temptations whatever

15. No sooner were the credulous Commons duped out of their money and dismissed, than the King set to work to pick a quarrel with the Dutch. They were wantonly provoked by a most outrageous insult. A small yacht, not even a man of war,

was ordered to sail through their whole fleet on their own coast, and fire upon them if they did not strike their flag to it. The Dutch, who tendered any explanation that the English Government chose to dictate, were studiously insulted. Parliament was prevented from meeting lest they should declare against such atrocious proceedings; but the money of which they had been duped was soon exhausted by debts and expenses. France had promised to pay £200,000 a-year during the war, a sum, however, quite inadequate to maintain the navy. The axe of Charles I. inspired the King and his Ministry with too wholesome a respect for the English nation to venture again upon ship money. In this dilemma the King declared that the staff of the treasurer should reward the ingenuity of the man who should discover an expedient for "raising the wind." Shaftesbury is said to have the merit of originating the idea, but Clifford reaped the profit and honour. The expedient hit upon was to shut up the Exchequer

16. Charles seemed to be most at home in the lowest depths of iniquity. With the treaty of Dover in one pocket, he professed a warm zeal for the Protestant religion; with his Proclamation of 1667 in the other, he seized upon the bankers' money in the Exchequer. When he had performed the splendid feat of duping his Parliament out of £800,000, for the purpose of cutting the throats of the very people to whom they were most attached, it was but sorry game to plunder a few bankers. Nevertheless, the King was so delighted with the peculiar perfidy of the transaction, that, to the promised reward of the treasurer's staff, he superadded an ignominious peerage. On the 2nd January, 1672, appeared a proclamation, stating that the payments out of the Exchequer should be suspended for one year; but interest at the rate of 6 per cent. was promised. The King seized £1,328,526; of this sum £416,725 belonged to Sir Robert Vyner alone

17. The bankers, it is true, were not many, but the money they had belonged in great part to their customers, and these were 10,000. The *coup de finance* was so cleverly done that no one, except one or two of the most intimate friends of the conspirators,

had the slightest warning. The consternation was dreadful in the City. Numberless merchants were ruined. The distress was felt through all ranks of society. Widows and orphans, who had no other means of investment, had lent their all to the bankers. Many persons went mad ; many died of a broken heart ; many destroyed themselves. It was at first promised that the suspension should only be for a year ; but year after year passed away, and neither the principal nor the interest was paid. But the intensity of the public suffering was too great, and the public indignation was too fierce to be neglected. What seems to be a most extraordinary circumstance is, that although so many persons of influence must have been injured by the transaction, there was no notice of it taken in Parliament. At length, in April, 1676, the King was obliged to order the accounts of the creditors to be examined by the Chancellor of the Exchequer. This having been done, in April 1677 the King issued letters patent, granting to each of the goldsmiths, their heirs and assigns, for the benefit of their creditors, in lieu and satisfaction of their debts, a yearly rent, part of the hereditary excise, equal to 6 per cent. upon the debt, with a clause of redemption, upon the King paying the principal and arrears of interest. These letters were printed and made public on the 23rd of May, 1677, and a bill to ratify them was passed by the House of Lords on the 10th July, 1678, but unfortunately, was not presented to the Commons before the end of the Session, and never became law

18. The interest continued to be paid till Lady-day, 1683, when it ceased. Those were times of fiery trial. The recoil of the crimes and cruelty of the Popish plot had struck down the fomentors of that horrible delusion. The blood of the hostile parties alternately flowed like water from the scaffold. The Royalists had obtained the undisputed ascendency, and payment of the interest due to the bankers immediately ceased. None was paid during the reign of James II. At length, in 1689, when the creditors were worn out with despair, some of them determined to petition the Court of Exchequer to make an order for payment of their claims. The Crown determined to resist payment, and the case was argued at great length ; two years were occupied in the arguments and deliberations of the

judges. At length, in 1691, the Court gave judgment in favour of the petitioners, and made an order on the Exchequer for payment. The Court appealed to the Exchequer Chamber. At that time the Lord Chancellor, or the Keeper of the Great Seal, sat in the Exchequer Chamber, and was accustomed to receive the assistance of all the Common Law Judges. Lord Somers was Keeper of the Great Seal. In 1697, the case was argued before the whole of the Judges. There were two points to be decided. 1. Whether the letters patent were good and valid to bind the Crown. 2. Whether the remedy taken by the petitioners was the proper one, and if it was in the power of the Court of Exchequer to order payment from the Treasury of the sums due to the claimants. On the first point the Common Law Judges unanimously held that the letters patent were good and valid to bind the Crown. On the second point they all, with one exception, held that the petitioners had adopted the proper course in petitioning the Exchequer, and that the Court had power to order payment. The Chief Justice of the Common Pleas alone held that they had not adopted the right remedy ; that the Court of Exchequer had no power to order payments out of the treasury ; and that the claimants ought to have petitioned the King himself. The assistant Judges having thus all delivered their opinions, the case remained for the final judgment of Lord Somers. It is one of the most famous cases in Westminster Hall. The Lord Keeper is said to have expended several hundred pounds in collecting books and pamphlets for his judgment. He carefully abstained from pronouncing any opinion as to whether the grant was good, and bound the Crown ; but, after going over all the precedents with extraordinary care and minuteness, and reviewing the history and powers of the Court of Exchequer, he held that the petitioners had adopted a wrong remedy, and that the Court had no power to order payment as it had done. It was doubtful whether the Keeper of the Great Seal had power to give the judgment of the Court against the opinion of the majority of the assisting Judges. Three Judges held that he had not this power, but seven held that he had ; he accordingly reversed the judgment of the Court of Exchequer

19. Under such circumstances, it was scandalous and dis-

graceful in the Crown to contest the matter any longer. Every one affirmed the case ; the objection was purely technical. The claimants appealed to the House of Lords ; the Crown persisted in a strenuous and disgraceful opposition, but, on the 23rd January, 1700, the Lords finally gave judgment in favour of the bankers, and reversed the judgment of Lord Somers. One would have thought that after such aggravated wrong and injustice, the Parliament would have hastened to repair the injury done to these unfortunate men. But the strangest part of the case is yet to come. The judgment of the Court clearly established their right to all arrears of interest ; but they were not paid one farthing of it. An Act was passed in 1700, that after the 26th December, 1701, the hereditary excise should be charged with interest at the rate of 3 per cent. on the principal, until payment was made of one-half of the debt. Thus ended this monstrous iniquity. The principal never was repaid, but was afterwards consolidated with the South Sea Annuities, and still forms part of the National Debt. It has been calculated that the loss to the bankers and their creditors, from arrears of interest and retention of the principal, was nearly three millions, to say nothing of the frightful expense of such protracted litigation

20. Notwithstanding the political agitation of the period, and the vice and extravagance of the Court, the nation, from the sheer force of its energy, continued to thrive and progress as soon as it attained a tolerably settled condition, but the want of an adequate supply of circulating medium was felt severely to cramp the operations of trade, and many persons who understood the great benefits which foreign countries derived from the establishment of banks, attempted to induce the Government to erect similar institutions. A great number of projects were started in print, some of particularly magnificent dimensions, but, as none of them came to anything, we need not be delayed by them any further

21. The troubled, but glorious era of 1688, not only destroyed public credit, but as was natural, diminished the productiveness of the taxes, and the new Government were obliged to purchase popularity by abolishing the hearth tax.

The tonnage and poundage, which in the reign of James II. produced £600,000, fell in 1693 to £286,687, and, notwithstanding some additional taxes were laid on, the whole revenue in 1693, was £1,510,318. Such an income was wholly inadequate to sustain the feeble and unsettled Government, and the most extensive frauds and robberies prevailed among the public officers. Some of these frauds were brought to light and the offenders punished; but, though commissioners were appointed for the purpose of discovering the defaulters, the Commons resolved in 1701—"That it was notorious that many millions of money had been given to his Majesty for the service of the public, which remain yet unaccounted for." It was alleged, that "in five years, the almost incredible sum of nearly eleven millions was thus embezzled

22. The chief object which tempted William's ambition to obtain the Crown of England, was to head the great European alliance against the overwhelming power of France. No sooner was the King pretty firm on his throne than he persuaded the Parliament to agree to a war with their ancient enemies. The Parliament was eager for the war and readily voted supplies, but they were scarce, and difficult to be got. The Government, at first, attempted to persevere in the old plan of mortgaging the grants to be voted by Parliament. Their attempts, however, were not very successful; and, in 1690, Parliament began the system of allowing money to be raised on short annuities, which was attended with good success. The increasing expense of the war, however, rendered this plan too burdensome, and in 1692 a plan was brought forward for raising duties for the space of 99 years, to pay the interest of an intended loan of £1,000,000 upon a tontine scheme. The subscribers were to receive 10 per cent. till 1700, and after that £7,000 per annum was to be divided among the survivors till their number was reduced to seven, when, upon the death of each, his annuity was to lapse to the Crown. So low was the credit of the Government that only £108,100 was obtained on these tempting terms, and a clause was introduced by which the subscribers might obtain 14 per cent. upon any life they chose to nominate. But even these two schemes produced only £881,493

23. All these devices, however, failed in producing an adequate supply of money to support the war, which languished in consequence. The fatal proceedings of Charles II. seem to have ruined the bankers, or, at least, to have deterred them from making advances to Government in their former style. The Government were obliged to revert to the humiliating plan of borrowing from every one in the city they could. They were obliged to solicit the Common Council of London for so small a sum as £100,000, and if they granted it, the Councilmen had to make humble suit to the inhabitants of their respective wards, going from house to house for contributions, and for these advances they had to pay, in premiums, discount, and commission, from 30 to 40 per cent.

24. The unhappy bankers, and their assigns, had, in despair of having their rights acknowledged by the Crown voluntarily, been driven into a court of law. Some of them, however, endeavoured to come to an agreement with the Crown. When it tried to raise money by way of perpetual annuities in 1691, they thought that they might make terms for themselves. On the 18th January, 1692, their proposal was submitted to the House. They said that whereas the debt due to the bankers and their assigns, was above £1,340,000 principal, with $8\frac{3}{4}$ years' arrears of interest, at 6 per cent. at Christmas, 1691, they proposed to forego all arrears of interest, and to advance a sum equal to their principal, on condition that interest at the rate of 6 per cent. should be secured to them by Act of Parliament. This proposal was subscribed by six or seven gentlemen whose principal money amounted to £29,378; several Members of the House, whose principal was £5,400, immediately declared their willingness to accept the same proposals. They believed that most of the others interested would come into the same arrangement. After a few days' delay, persons whose principal amounted to £39,775 came into the proposal. Those who agreed to these proposals were chiefly the assigns of the bankers and their creditors. The bankers themselves declined to join in the arrangement, for fear it might prejudice their case in the Exchequer. When the Committee who brought up this report to the House first met, a proposal was made to them, that certain parties were ready to

subscribe a million, on condition of receiving £65,000 a year, of which £5,000 was to be for management, and the rest for interest, and that their bills of property or stock should have a forced currency, or be made legal tender, in which case they offered to advance £200,000 in cash, to be ready as a bank to exchange such current bills as should be demanded of them, to give them credit, and support their circulation, and that they should receive 5 per cent on that sum. This scheme was devised by Mr. William Paterson, and supported by several wealthy merchants in the city. The Committee declined to receive the proposal for giving a forced currency to this stock, but they were quite willing to receive such a plan, and make the stock transferable at pleasure. The proposal broke off upon this difference. Paterson and some of his friends were willing to waive the forced currency of the stock, but nothing came of it. Such was the first effort of Paterson to found a National Bank. After this failure, no further proposal was made till the beginning of 1694, when the increasing public necessities made the Ministry attempt to start another such project. They sent for Paterson, and requested him to organise another plan. His second project was to raise a capital of £2,000,000 at 7 per cent. interest. His influence obtained forty men to subscribe £5,000 each, as a fund to circulate £1,000,000 at 8 per cent. The Lords of the Treasury, however, who were accustomed to allow 40 per cent. discount on tallies at 8 per cent. interest, which had but four or five years to run, could not be persuaded that persons would subscribe at par to a fund which had no positive determination. This plan underwent several modifications, but they all failed, and a lottery was started to supply the deficiency, which was equally abortive. Not discouraged by the failure of all these attempts, he persevered, and formed another project, which was to raise and circulate £1,200,000 upon a fund of £100,000 a-year. Some party jealousy came at the opportune moment to assist Paterson. Mr. Michael Godfrey, brother of Sir Edmundbury Godfrey, and some persons who were nettled with some transactions with the East India Company, now took Paterson up, and in effect, supplanted him ; for, though he continued to advise and assist in the direction of the measure, Godfrey stood foremost in it, and was considered both by the Ministers and the

Parliament as the efficient man, on whom all depended, and to whom all acknowledgments were to be paid

25. This scheme at last succeeded; after the details had been settled in concert with the Ministers, it was brought before the Privy Council, and long and anxiously discussed in the presence of the Queen, and, at last, the Statute, 1694, c. 20, was passed, by which the Bank of England was established

26. Few things can be more surprising than that a system which had been in operation for centuries in Italy, and which had conduced so much to the stability, nay, almost to the existence of several of the Italian Governments, had not been thought of in England before this time. Such, however, was the case. Before the Bank of England there is no instance of any but a commercial State having adopted such a measure. Perhaps it was, that in no State but a commercial one was there to be found such a degree of monetary honour, as to induce people to lend their funds upon perpetual annuities upon the security of the Royal word. The debt created by the establishment of the Bank of England was the first attempt in England to raise money by way of perpetual annuities, and it did not take place until the chief power in the State had finally passed away from the Crown to the Parliament. Only thirteen years after the Revolution, the King, in his speech to Parliament, 30th December, 1701, presses the House of Commons to take care of the public credit, "which," he says, "cannot be preserved but by keeping sacred that maxim, that they shall never be losers who trust to a parliamentary security." How different from the sentiments of preceding monarchs !

27. The Act, Statute 1694, c. 20, incorporating the Bank of England, received the Royal assent on the 25th April, 1694, and its chief provisions are as follows—

1. After providing for raising certain taxes mentioned in the Act, it directed that the sum of £100,000 a-year should be appropriated to the encouragement of persons making a voluntary loan of £1,200,000 for the purpose of carrying on the war with France, in the following manner—

2. The Crown might appoint commissioners to receive subscriptions for the sum of £1,200,000, before the 1st August, 1694, from any person, native or foreign, bodies politic or corporate, to be paid into the Exchequer, and the said sum of £100,000 per annum was set apart to be paid to the use of the subscribers, their heirs, successors, or assigns

3. The Crown was empowered to authorise, by letters patent, the subscribers to the loan to assign and transfer their stock and interest, and to prescribe the manner of doing so, and to erect them into a corporation, to be called the Governor and Company of the Bank of England, with all the usual privileges of a corporation, together with the power to acquire and hold lands, rents, tenements, and hereditaments of all descriptions, in as full a manner as any private individual, subject to a proviso of redemption

4. That in case the whole sum of £1,200,000 should not be paid into the Exchequer by the 1st January, 1695, then the payment to the subscribers shall only be at the rate of 5 per cent. on the sum advanced ; and that at any time after the 1st August, 1705, upon Parliament giving twelve months' notice, and repaying the whole of the debt due, the Corporation should cease and determine

5. No single person was to subscribe more than £20,000, and one-fourth was to be paid down at the time of subscription, and the remainder before the 1st January, 1695 ; in case of non-payment of the remainder, the first instalment to be forfeited to the Crown

6. Unless at least one-half the capital was subscribed before the 1st of August, the subscribers were not to be made a corporation, but those who had subscribed might transfer their stock annuities as individual creditors of the Crown

7. The corporation was strictly forbidden to borrow or give security by bill, bond, covenant, or agreement under their common seal, for any sums exceeding £1,200,000 except they were allowed to do so by Act of Parliament. In case they exceeded this limit, the proprietors were to be liable in their private capacities

8. The corporation were allowed to deal in bills of exchange, to buy or sell bullion, gold, and silver, to lend money on the

security of goods and wares, and merchandise, and if the loan was not repaid within three months of the time agreed upon, to sell such goods ; and to sell goods, the produce of their own lands

9. But they were strictly forbidden, either directly or indirectly, to deal or trade, or to permit any one on their behalf to deal or trade, with any of the money, stock, or effects of the corporation, in buying or selling any goods, wares, or merchandise, under the penalty of forfeiting treble the value of the goods to any common informer

10. All the bills obligatory, and of credit, under the seal of the corporation, made or given to any person, might, by indorsement of such person, be freely assigned to any person who should voluntarily accept them, and so by such assignees, *toties quoties*, by indorsement thereon, and all such assignees might sue thereon in their own names

11. That if the Corporation should purchase any Crown lands, or advance any money to the Crown whatever, except by the special permission of Parliament, they should forfeit treble the value of all such advances ; one-fifth to any common informer, and the remainder to the public

12. All fines, amerciaments, and judgments recovered against the corporation might be paid by the officers of the revenue, out of the annuity of £100,000

In pursuance of this Act, a commission to receive subscriptions was nominated on the 15th of June, the whole stock was subscribed for in ten days, and the Charter of Incorporation was issued on the 27th July

28. This great experiment was regarded with some doubt and misgiving even by its zealous supporters ; they feared it could hardly be successful with so moderate an interest as eight per cent. But several very numerous classes of people regarded it with the utmost detestation. The usurers, whose inordinate gains were checked, were filled with rage. Some said that it would become a gigantic monopoly, engross all the money in the Kingdom to itself, and combine with the King to set up a despotism. Some inveighed against its granting interest, which they said would draw money away from trade, not perceiving, in the blindness of

their passion, that if the Bank allowed interest to its customers, it must advance money to traders to make it. Some became extremely zealous for the morals of the nation, which were to be placed in imminent peril by the new Bank. Some pretended to dislike it for fear it should disappoint the King in the expected supplies. The domestic enemies of the Government were furious against it, because they saw how enormously it would strengthen the new dynasty

29. The immense benefit which accrued to the State by the establishment of the Bank, was shown by the increased vigour with which the war was carried on. The army assumed the offensive; and, in July, 1695, the King undertook the siege of Namur. At this time Mr. Michael Godfrey, the Deputy-Governor of the Bank, went over to Namur to arrange with the King as to the manner in which the money for the use of the army should be remitted. In the last days of July he ventured too near the town to speak to the King, during a heavy cannonade, and was killed at his side. Previously to this he had published a pamphlet on the subject of the Bank, which is of great historical importance with regard to the Currency. It is written in a strain of the warmest congratulation upon the great success of the experiment, which he had taken so leading a part in forwarding. He states that, whereas in the beginning of 1694, the Government tallies were at a discount of £25 to £30 per cent., in addition to the public interest, the Bank took them at par, and from the former heavy discount they had risen to a premium, so that they were then better than money, because there was 7 or 8 per cent. per annum benefit while they were kept, which never could have been done without the Bank. He said that those who lodged their money at the Bank had it as much at their disposal as if it were in the hands of the goldsmiths, or in their cash chest, and he certainly countenances an accusation which is constantly brought against the goldsmiths in contemporary pamphlets; for he says, that if the money which had been lodged with them for four or five years past had been deposited in the Bank, it would have prevented it from being so scandalously clipped, which he predicts would cost the nation some day a million and a half or two millions to repair. He notes it as very surprising and quite

unexampled, that after the nation had been at war for six years, and had spent £30,000,000, besides great quantities of bullion being exported and captured by the enemy, that there had been so great a fall in the rate of interest instead of a rise, as in all previous wars, which was entirely due to the Bank, and he predicted that it would, in the course of a few years, reduce it permanently to 3 per cent. He says that, within 30 years of that time, the public had lost between two and three millions by the goldsmiths and scriveners breaking, which would not have happened if the Bank had been established. He says that there were some who were for having a forced currency of bills or tallies, thinking that they might pass as well as bank bills, *but they do not consider that it is nothing makes bank bills current, but only because all those who desire it can go when they will and fetch their money for them ;* and to force anything to pass in payment but money would soon end in confusion. He then enters into numerous arguments to show that any attempt at a forced currency would only end in damaging the public credit. He says that the chief reason of the indignation of the goldsmiths at the Bank was that they allowed 2*d*. per cent. per diem on their bank bills, which drew away customers from them. He says that the interest allowed to the holders of their bills amounted to £36,000 per annum

30. The year 1694 is remarkable as the one in which the first of those speculative manias occurred, which have, on different subsequent occasions, seized upon the nation. All the tricks, all the rogueries, which have been so familiar in the joint stock bubbles of later years, were rife at the time, but it is remarkable that while, in later times, these things have always sprung up when there was a greater abundance of capital than usual, in time of peace, this was at a time when a costly war had been raging for several years, and there was a great dearth of specie

31. We must now retrace our steps a little, and examine the condition of the Coinage, which is necessary to understand the subsequent history of Banking ; for controversies on the subject

now began which have lasted almost till our own times ; if indeed they may be even yet considered to be extinct

In April, 1690, the great scarcity of silver coins occasioned great public inconvenience. The goldsmiths complained to the House of Commons that they had ascertained that immense quantities of silver bullion and dollars had been exported. That many Jews and merchants had recently bought up large quantities of silver to carry out of the kingdom, and had given three half-pence per ounce above its regulated value. That this had encouraged the melting down of much plate and milled money, whereby for six months past no Bullion had been brought to the Mint to be coined. The House appointed a Committee, who verified these allegations. It was shown that the profit of melting down the milled money for exportation was about £25 per £1,000, and that the Mint price of silver was £5 2*d.* per ounce, but it was generally sold for 5*s.* 3½*d.* The House, in consequence, passed one of their useless laws against exporting Bullion

The state of the Coinage now became every day more disgraceful. Quantities of base and counterfeit coin were thrown into circulation. The House of Commons addressed the King to abolish the private right of coinage of half-pence and farthings. The current coins had been for many years clipped and adulterated, which in 1694 reached such a height, that the silver coins current had lost nearly half their value, while a great part of the current money was only iron, brass, or copper plated

As this state of matters gave rise to the first great Currency debate of modern times, and brought about a great monetary crisis, we may dwell upon it rather fully

During 1694, the silver coinage became worse daily, and by the end of the year, guineas, which had originally been coined to represent 20*s.*, gradually rose, till they reached 30*s.* The exchange with Holland fell 25 per cent., and it would have fallen still lower, only it was shewn that the real exchange was in favour of England. The exchange with Ireland fell so much that £70 there was worth £100 in England

The evils of clipping the coin reached so great a height at the end of 1694, that Mr. Fleetwood, the Chaplain-in-Ordinary to the

King and Queen, being selected to preach before the Lord Mayor and Aldermen on the 16th December, 1694, made it the subject of his sermon on the text, Gen. xxiii., 16. In an admirable sermon, or rather politico-economical discourse, he denounced the fraud and wickedness of clipping and debasing the coinage. He said (p. 19), that the money was clipped down nearly one half. He showed that he understood the subject a great deal better than many men a century later. He showed that, if the money generally were clipped, all the good and weighty money that remained must be exported. "The merchant that exports more goods from home than he imports from abroad, must unavoidably discharge the overbalance with good money; this he can never do with clipped, for it is not *Cæsar's face and titles*, but *weight* and *goodness* that procure credit. And, if a foreigner import more of his country's goods than he carries away of ours, the overbalance must be paid in weighty money, for the clipped will not go abroad. Now, if the exportation of our weighty money (which is only now the milled) be a mischief to a nation, we see it is occasioned chiefly by the clipping"

32. The disgraceful state of the Coinage could no longer be overlooked by Parliament. On the 8th of January, 1695, a Committee was appointed to consider the subject. At this time, says the Parliamentary History, vol. v., p. 955:—"The difficulty lay so heavy upon the Government, that a stop was almost put to trade and taxes. The current silver coin had for many years begun to be clipped and adulterated; and the mischief of late had been so secretly carried on by a combination of all people concerned in the receipt of money, and so industriously promoted by the enemies of the Government, that all pieces were so far diminished and debased, as that five pounds in silver specie was scarce worth 40s., according to the standard; besides an infinite deal of iron, brass, or copper washed over or plated." The Committee recommended that the money should be recoined into milled money. It estimated the expense at one million. That the new money should be of the same weight and fineness as the old. That the crown piece should be current at 5*s.* 6*d.* That various penalties should be imposed for offences against the coins. An Act was passed, statute 1695, c. 17, to prevent

counterfeiting and clipping the coin of the kingdom. This statute averred that it was notorious that the current coin had been greatly diminished by clipping, rounding, filing, and that many false and counterfeit coins had been clipped, for the better disguising thereof, and that these practices had been much occasioned by those who drove a trade of exchanging broad money for clipped money, and other arts and devices. It therefore, prohibited any person from exchanging, lending, selling, borrowing, buying, receiving, or paying any broad or unclipped silver money for more in tale, benefit, profit, or advantage than the same was coined for, and ought by law to pass for, under a penalty of 10*s.* for every 20*s.* so trafficked with. It also enacted that whoever should buy or sell, or knowingly have in his possession, any clippings or filings of the coin, should forfeit them, as well as a penalty of £500, and be branded on the right cheek with a hot iron. It forbade any one but a trading goldsmith, or refiner of silver, to buy or sell Bullion, under pain of imprisonment, and enacted numerous other vexatious penalties and regulations respecting the export of Bullion. All these absurd cruelties were wholly ineffectual, and, while multitudes of miserable wretches were dangling on the gibbets, clipping and counterfeiting were as rife as ever. Guineas which had originally been coined to be equal to 20*s.* had progressively risen as the silver got worse, till at this time they were current at 30*s.* of the base trash, which passed by the name of silver coin

The frightful disorder of the currency may be judged of by the following facts. In the months of May, June, and July, 1695, 572 bags of silver coin, each of £100, were brought into the Exchequer, whose aggregate weight, according to the standard, ought to have been 18,451 lbs. 5 oz. 16 dwts. 8 grs.; their actual weight was 9,480 lbs. 11 oz. 5 dwts., making a deficiency of 8,970 lbs. 7 ozs. 11 dwts. 8 grs., showing a deficiency in the weight of the current coins in the ratio of 10 to 22. One writer says (*An Essay for regulating of the coin. By A. V., Sept.* 2, 1695)—"Upon trial I have found that 5*s.* of milled money hath weighed 8*s.* of the present current money, and 3*s.* of the 8*s.* was not clipped, only worn. Again, I have found 10*s.* in milled money to weigh 21*s.* of the clipped money.

Again, 20*s.* of milled money to weigh 43*s.* of our now current money

"I have gone to several goldsmiths in London, and have got them to take out of their counters a bag of £100 as came to hand, which, upon trial, I have found at one place to weigh—

	Oz.	Dwt.	Gr.
A bag of £100	230	13	6
Another place £100 Weighed	222	0	15
Another place	198	17	0
Another place	190	0	0
Another place	182	3	0
Another place	174	11	20
	1,198	5	17

"The £600 weighing in all 1,198 oz. 5 dwts. 17 grs., and is no more than what £310 in milled money will weigh

"I am informed the money paid into the Exchequer doth weigh from 15 (and seldom the £100 reacheth) to 20 lbs. weight, so that the very best brought in there doth not weigh two-thirds of what it ought to do, and the money paid into the Exchequer is supposed, a great part of it, to come from the country

"But, as it's believed that the money in the country is generally not the one-half so bad as it's in and near London, I have procured an account to be sent me from the following cities, from whence I am informed that £100 doth weigh on trial of *two* bags in each place, to be, viz.—

	Oz.	Dwt.	Gr.
In the City of Bristol, one bag of £100 weighed	240	0	0
Another weighed	227	15	0
In the City of Cambridge, a bag of £100 weighed	203	5	10
Another weighed	211	0	19
In the City of Exon, one bag of £100 weighed	180	7	0
Another weighed	192	3	0
In the City of Oxford, £100 in half-crowns weighed	216	10	0
£100 in shillings	198	0	15
	1,669	1	20

"The £800 weighing no more than £431 15*s.* of milled money will weigh, and but a very small difference between the weight of the money in London and the country"

This disgraceful state of the money gave rise to the greatest public confusion and distress, and a warm controversy arose whether the new money which should be coined should be of the old standard in weight, fineness, and denomination, or whether it should be depreciated, or raised in value, as it was absurdly called. This controversy was keenly disputed then, and we may pay some considerable attention to it, because it was revived under another form 116 years later, when the notes of the Bank of England were depreciated, and a strong party maintained that the standard of the coin should be depreciated to the level of the depreciated notes

33. We shall find that it is of very great importance to fix the exact period when the silver coin was so depreciated, as that guineas passed at 30*s.* We shall, therefore, make some extracts from contemporary pamphlets. It says, in one published in 1695 (*Some Remarks on a Report containing an Essay for the Amendment of the Silver Coins, by Mr. W. Lowndes. London*, 1695), page 6, after speaking of the gradual deterioriation of the coinage—

"And so, by degrees, as the silver coin was diminished and debased in itself, so it fell in the estimation of the people, and in proportion gold advanced, and also Bullion (that is not in itself, but in proportion to the bad money), not that Bullion became worth 6*s.* 5*d.* an ounce, or GOLD 30*s.* A GUINEA in good money, that is, in weighty standard money, but in clipped and counterfeit money, whereof 6*s.* 5*d.* was not of the true nor esteemed value of 5*s.* 2*d.* And, as we ourselves grew sensible of the want of value in money that passed, so did foreigners likewise, AND THE FOREIGN EXCHANGES SOON ALTERED ACCORDINGLY, so that it cannot properly be said that Bullion is advanced much, *but that the money that is exchanged for them is of much less value than it was*, and the new coining of our money will not, as I apprehend, alter the value of bullion, gold, &c., but it will bring silver in coin to its due value"

After enforcing and illustrating these views at considerable

length, he observes that Mr. Lowndes hoped that the exchange with Holland, which was then 25 per cent. against England, might be prevented falling lower, and says, page 16—

"If guineas CONTINUE CURRENT AT 30*s.* A PIECE, the exchange will continue about the rate it does, except the common and ordinary variation, which many sudden drafts and remittances occasion; *and if guineas fall, the exchange will rise in proportion;* AND IF THE SILVER COIN IS REDRESSED GUINEAS WILL FALL, and there are no other designs whatsoever can effect any considerable alteration, for English standard silver and standard gold will always be of the same value in Holland, as the same standard silver and gold in England, with 2, 3, 4, and 6 per cent., or thereabouts: and that difference happens according to present occasions, and the charge of sending it from one place to another, and the exchange to Holland and other places always govern accordingly"

Again, page 19—

"It is not the exportation of the silver which occasioned the fall in the exchange between Holland and here, but the reason of that *is the badness of our silver coin*

Again, page 20—

"THE BALANCE OF TRADE IS NOT THE CAUSE OF THE GREAT FALL OF THE EXCHANGE WITH HOLLAND, BUT THE DEBASING OF OUR COIN"

And he repeatedly declares, that the only way to set matters right was to reform the coinage. He also says that it was his opinion that it was not to the advantage of the kingdom to restrain the exportation of Bullion, or indeed of money itself, to any certain quantity, but to let it be entirely free

34. We have already seen from the pamphlet of Mr. Godfrey that, in the spring of 1695, the Bank was in high credit. His pamphlet is nothing but a strain of congratulation on the great success that had attended the experiment. Burnet also tells us that a party in the country, who were moved with great jealousy formed a design to ruin it on account of its flourishing credit. They tried what could be done to shake its credit, but this attempt was rejected with indignation by both Houses. He also tells us at the same period, that there were two sets of coin, one

milled, which could not be practised upon, the other not so, which was clipped, and so much so that at last it was diminished to less than half its proper weight. When this had gone on for some time, the King was advised to issue a proclamation to make it current by weight and not by tale, but it was strongly opposed in the Council. The badness of the money then was very visible. Guineas, which were valued at 21*s.* 6*d.* in silver, rose to 30*s.*, that is to say that 30*s.* sank to 21*s.* 6*d.* The deterioration became still worse, and later in the summer Lord Somers again proposed in the Council that a proclamation should be issued to make coin current by weight and not by tale. The King was also of that opinion, but the rest of the Council were unanimously against it. "And so," says Burnet, "this proposition was unanimously laid aside, which would have saved the nation about a million of money. For now all people believed that the Parliament would receive the clipped money in its tale, clipping went on, and became more visibly scandalous than ever it had been"

35. Mr. William Lowndes, the Secretary of the Treasury, was ordered by them to make a Report on the subject of the coin. This he did in *A Report containing an Essay for the Amendment of the Silver Coins. London,* 1695. In this he enters into a long and, at the time, valuable investigation of the history of the coinage, and its successive depreciations in weight and fineness. After giving the date of every Mint indenture for four hundred years, he says, p. 56—"By the careful observing of which deductions here made, from the indenture of the Mint for about 400 years past (many of which are yet extant, and have been seen and examined by me), it doth evidently appear that it hath been a policy constantly practised in the Mints in England (the like having indeed been done in all Foreign Mints belonging to other Governments), to raise the value of the coin in its extrinsic denomination from time to time, as any exigence or occasion required; and more especially to encourage the bringing in of Bullion into the realm to be coined (though sometimes, when the desired end was obtained, the value has been suffered to fall again), so that, in the whole number of years from the 28th Edward I. until this time, the extrinsic value or denomination of

the silver is raised in about a triple proportion." Here we cannot fail to observe the utter confusion of idea that Mr. Lowndes, and too many after his time, labour under. They manifestly suppose that, by raising the *Name* of the coin they raise its *Value*. The extrinsic value of the coin can by no possibility mean anything else but the quantity of things it will *exchange for*. And to call the quantity of things it will exchange for its *denomination* is a most pitiable confusion of ideas. Mr. Lowndes then says :—

"The which being premises, and every project for debasing the money (by the reason before given) being rejected as dangerous, dishonourable, and needless, it remains that our nation in its present exigence, may avail itself, by raising the value of its coins, and this may be effected either by making the respective pieces called crowns, half-crowns, shillings, and to be lesser in weight, or by continuing the same weight or bigness, which is at present, in the unclipped moneys, and ordaining at the same time that every such piece shall be current at a higher price in tale

"But before I proceed to give my opinion on this subject, it seems necessary for me to assert and prove an hypothesis, which is this, namely, *That making the pieces less, or ordaining the respective pieces (of the present weight) to be current at a higher rate, may equally raise the value of Silver in our Coins*"

Mr. Lowndes then enters into an argument to prove that sixty pence are equal to seventy-five pence—a wild goose chase in which we decline to follow him

His proposal was, then, that all the existing unclipped silver money should be raised in denomination to 6*s*. 3*d*. the crown, and other coins in proportion, so that the shilling would pass for fifteen pence instead of twelve. That new coins should be struck at the increased denominations. These coins he proposed to christen by new names. The reasons he alleged for this proceeding are—"1. The value of the silver in coin ought to be raised to the foot of 6*s*. 3*d*. in every crown, because the price of standard silver in Bullion is risen (from divers necessary and unnecessary causes, producing at length a great scarcity thereof in England) to 6*s*. 5*d*. an ounce. This reason (which I humbly conceive will be irrefragable) is grounded chiefly upon a truth so apparent, that it may well be compared to an axiom, even in

mathematical reasoning, to wit—that whensoever the extrinsic value of silver in the coin hath been, or shall be, less than the price of the silver in Bullion, the coin hath been, and will be, melted down"

He then enters into some objections against this proposal, and says, p. 76—"That everything having any value or worth whatsoever, when it becomes scarce, grows dear, or (what is the same thing) it riseth in price, and consequently, it may serve to pay more debts, or it will buy greater quantities of other goods of value, or in anything else it will go further than it did before. That silver in England being grown scarce as aforesaid, is consequently grown dearer. That it is risen in price from 5*s.* 3*d.* to 6*s.* 5*d.* an ounce; and, by daily experience, 19 3-10 dwts. in sterling silver (equal to the weight of a crown piece) in England, doth and will purchase more coined money than 5*s.* by tale (though the latter be delivered *bonâ fide* in unclipped shillings, or in a good bill), and, consequently, doth and will purchase and acquire more goods, or necessaries, or pay more debts in England, or (being delivered here) it fetches more money in any foreign parts by way of exchange, than 5*s.* by tale, or the sixth part of a guinea by tale, or goods to the value of 5*s.* in tale only, do or can fetch, purchase, or acquire. That this advanced price of the silver has been growing for some time, and is originally caused by the balance, excess, or difference above mentioned, which naturally and rationally produces such an effect. . . . That the raising the value of the silver in our coins to make it equal to silver in mass, can in no sense be understood to be a cause of making silver scarce. That there can never be proposed any just or reasonable foot upon which the coin should be current, or an extrinsic denomination very near that price. It being most evident that if the value of the silver in our coins should (by any intrinsic denomination) be raised above the value or market price of the same silver reduced to Bullion, the subject would be proportionately injured and defrauded, as they were formerly in the case of the base moneys coined by public authority"

He then says the value of the silver in the coin ought to be raised, to encourage the bringing of Bullion to the Mint to be coined. That this had been repeatedly done in the

English and Foreign Mints. That raising the value of silver in coin would increase the whole species in tale, and thereby make it more commensurate to the need for it for carrying on the common traffic and commerce of the nation, and to answer the payments on the numerous contracts, securities, and other occasions, requiring a large supply of money for that purpose

He says that at that time guineas passed current for 30*s*.

He then gives some details of the state of the coinage, by which he showed that they were diminished by about half their usual weight

We have said, that when coins were struck out of Bullion, that the value, or purchasing power of the money depended upon the actual quantity of Bullion in it, and not at all on the name of the coin. A most extraordinary delusion, however, began to prevail in early times, of which we have the first notice in Plutarch. It was this, that when the coins were once called and recognised by a certain name, that their value depended upon the *name*, and did not depend upon the quantity of metal in them. About the end of the 17th century this incredible heresy began to find adherents in this country, and this notion long infested the notions of many financiers, and, we shall see hereafter, was stoutly maintained by the Government party in the great currency debates in 1811, and was the cause of great mischief to this country

36. The extraordinary doctrines of Lowndes called forth a worthy antagonist, and were the origin of some of his most admirable writings, and they are of so much importance that we shall make some extracts from them, as there is no doubt that the fallacies he combated are even not yet entirely eradicated

Locke had in 1691 published a treatise, in which he showed the utter fallacy of interfering with the rate of interest by law, and combated the idea that was then becoming prevalent, that the value, as it was called, of the coin should be raised in order to keep it in the country. He showed that the persons who supported such a plan were confounding the *denomination* with the *value*, its name with the purchasing power, and that all such

ideas proceeded from a confusion of terms, and would have no real effect. The arguments of Locke, though by no means absolutely novel, had never been put before so luminously and fully. The proposal of Lowndes, coming from a man holding his official position, demanded a prompt notice and exposure. This Locke did, in *Further Considerations concerning Raising the Value of Money*, in which he exposed the fallacy of Lowndes's arguments—"Raising of coin is but a specious word to deceive the unwary. It only gives the usual denomination of a greater quantity of silver to a less (*e.g.*, calling four grains of silver a penny to-day, when five grains of silver made a penny yesterday), but adds no real worth, or real value to the silver coin, to make amends for its want of silver. That is impossible to be done, for it is only the quantity of silver in it, that is, and eternally will be, the measure of its value, and to convince any one of this, I ask whether he that is forced to receive but 320 ounces of silver under the denomination of £100 (for 400 ounces of silver which he lent under the like denomination of £100) will think these 320 ounces of silver, however denominated, worth those 400 ounces he lent? If any one can be supposed so silly, he need but go to the next market, or shop, to be convinced that men value not money by the denomination, but by the quantity of the silver there is in it. One may as rationally hope to lengthen a foot, by dividing it into 15 parts instead of 12, and calling them inches, as to increase the value that is in a shilling, by dividing it into 15 parts instead of 12, and calling them pence. This is all that is done when a shilling is raised from 12 to 15 pence

"Clipping of money is raising without public authority, the same denomination remaining to the piece, that hath now less silver in it than it had before

"Altering the standard, by coining pieces under the same denomination with less silver in them than they formerly had, is doing the same thing by public authority. The only odds is that, by clipping, the loss is not forced on any one (for nobody is obliged to receive clipped money); by altering the standard it is

"Altering the standard by raising the money, will not get to the public, or bring to the Mint to be coined, one ounce of

silver ; but will defraud the king, the church, the universities and hospital, and of so much of their settled revenue as the money is raised, *e.g.*, twenty per cent. of the money (as is proposed), be raised one-fifth. It will weaken, if not totally destroy, the public faith, when all that have trusted the public, and assisted our present necessities, upon Acts of Parliament, in the million lottery, Bank Act, and other loans, shall be defrauded of twenty per cent. of what those Acts of Parliament were security for. A less quantity of silver has a less value ; and an equal quantity an equal value

"4. That money differs from uncoined silver only in this, that the quantity of silver in each piece of money is ascertained by the stamp it bears ; which is set there to be a public voucher of its weight and fineness

"5. That gold is treasure, as well as silver, because it decays not in keeping, and never sinks much in value

"6. That gold is fit to be coined as well as silver ; to ascertain its quantity to those who have a mind to traffic in it ; but not to be joined with silver as a measure of commerce"

Locke then examines Lowndes's doctrine, that the value (or denomination) of the silver coin should be raised to 6*s.* 3*d.* the ounce, because the price of standard silver has risen to 6*s.* 5*d.* the ounce—

"This reason seems to me to labour under several mistakes ; as

"1. That standard silver can rise in respect of itself

"2. That standard bullion is now, or ever was, worth, or sold to the traders in it for 6*s.* 5*d.* the ounce, of lawful money of England. For, if that matter of fact holds not to be so, that an ounce of sterling bullion is worth 6*s.* 5*d.* of our milled weighty money, this reason ceases ; and our weighty crown pieces ought not to be raised to 6*s.* 3*d.*, because our light clipped money will not purchase an ounce of standard bullion, under the rate of 6*s.* 5*d.* of that light money. And, let me add here, nor for that rate neither. If, therefore, the author means here, that an ounce of standard silver is risen to 6*s.* 5*d.* of our clipped money, I grant it him, and higher too. But, then, that was nothing to do with the raising our lawful coin, which remains unclipped ; unless he will say, too, that standard bullion is so risen, as to be worth, and actually to sell for, 6*s.* 5*d.* the ounce of our weighty milled money.

This I not only deny, but further add, that it is impossible to be so. For 6*s.* 5*d.* of milled money weighs one ounce and a quarter near. Can it, therefore, be possible that an ounce of any commodity should be worth an ounce and a quarter of the self-same commodity, and of exactly the same goodness ? for so is standard silver to standard silver. Indeed, one has a mark upon it which the other has not ; but it is a mark that makes it rather more than less valuable, or, if the mark, by hindering its exportation, makes it less valuable for that purpose, the melting pot can easily take it off . . . .

" Those who say bullion is risen, I desire to tell me what they mean by risen ? Any commodity, I think, is properly said to be risen, when the same quantity will exchange for a greater quantity of another thing ; but more particularly of that thing, which is the measure of commerce in the country. And thus corn is said to be risen among the English in Virginia, when a bushel of it will sell or exchange for more pounds of tobacco ; among the Indians, when it will sell for more yards of wampom peak, which is their money ; and among the English here, when it will exchange for a greater quantity of silver than it would before. Rising and falling of commodities are always between several commodities of distinct worths. But nobody can say that tobacco (of the same goodness) is risen in respect of itself. One pound of the same goodness will never exchange for a pound and a quarter of the same goodness. And so it is in silver : an ounce of silver will always be of equal value to an ounce of silver : nor can it ever rise or fall, in respect of itself : an ounce of standard silver can never be worth an ounce and a quarter of standard silver ; nor one ounce of uncoined silver exchange for an ounce and a quarter of coined silver : the stamp cannot so much debase its value. Indeed, the stamp, hindering its free exportation, may make the goldsmith (who profits by the return of his money) give one 120th, or one 60th, or perhaps sometimes one 30th more, that is 5*s.* 2½*d.*, 5*s.* 3*d.*, or 5*s.* 4*d.* the ounce of coined silver for uncoined, when there is need of sending silver beyond seas ; as there always is, when the balance of trade will not supply our wants, and pay our debts there. But much beyond this the goldsmith will never give for bullion, since he can make it out of coined money at a cheaper rate

"It is said bullion has risen to 6*s.* 5*d.* the ounce, *i.e.*, that an ounce of uncoined silver will exchange for an ounce and a quarter of coined silver. If anyone can believe this, I will put this short case to him. He has of bullion, or standard uncoined silver, two round plates, each of an exact size and weight of a crown piece: he has besides, of the same bullion, a round plate of the weight and size of a shilling, and another yet less, of an exact weight and size of a three-pence. The two great plates being of equal weight and fineness, I suppose he will allow to be of equal value, and that the two less, joined to either of them, make it one-fifth more worth than the other is by itself, they having all three together one-fifth more silver in them. Let us suppose, then, one of the greater and two less plates to have received the next moment (by miracle, or by the mill, it matters not how), the mark, or stamp, of our crown, our shilling, and our three-pence, can anyone say, that now they have got the stamp of our Mint upon them, they are so fallen in value, or the other unstamped piece so risen, that that unstamped piece, which a moment before was worth only one of the other pieces, is now worth them all three? Which is to say, that an ounce of uncoined silver is worth an ounce and a quarter of coined. This is what men would persuade us, when they say that bullion is raised to 6*s.* 5*d.* (of lawful money) the ounce, which I say is utterly impossible. Let us consider this a little further in another instance. The present milled crown pieces, say they, will not exchange for an ounce of bullion, without the addition of a shilling, and a three-pence of weighty coin added to it. Coin but that crown piece into 6*s.* 3*d.*, and then say it will buy an ounce of bullion, or else they will give up their reason and measure of raising the money. Do that which is allowed to be equivalent to coining of a present milled crown piece into 6*s.* 3*d.*, viz., call it 75 pence, and then also it must, by this rule of raising, buy an ounce of bullion. If this be so, this self-same milled crown-piece will, and will not, exchange for an ounce of bullion. Call it sixty pence and it will not: the very next moment call it seventy-five pence, and it will. I am afraid nobody can think change of denomination has such power"

Locke then goes through each of Lowndes's arguments and proposals one by one, and gives them such a refutation as would

have delighted the heart of Chillingworth. Among other things, he says—"It is true, what Mr. Lowndes observes here, the importation of gold, and the going of guineas at 30*s.* has been a great prejudice and loss to the Kingdom. But that has been wholly owing to our clipped money, and not at all to our money being coined at 5*s.* 2*d.* the ounce: nor is the coining of our money lighter the cure of it. The only remedy for that mischief, as well as a great many others, is the putting an end to the passing of clipped money by tale, as if it were lawful coin"

To Lowndes's doctrine, that raising the coin by making it more in tale, would make it more abundant for general use, Locke says—"Just as the boy cut his leather into five quarters (as he called them) to cover his ball, when cut into four quarters it fell short; but, after all his pains, as much of the ball lay bare as before. If the quantity of coined silver employed in England fall short, the arbitrary denomination of a greater number of pence given to it, or, which is all one, to the several coined pieces of it, will not make it commensurate to the size of our trade, or the greatness of our occasions. This is as certain, as that if the quantity of a board, which is to stop a leak of a ship fifteen inches square, be but twelve inches square, it will not be made to do it, by being measured by a foot which is divided into fifteen inches, instead of twelve, and so having a larger tale, or number of inches in denomination given to it

"This indeed, would be a convincing reason if sounds would give weight to silver, and the weight of a greater number of pence (less in quantity proportionably as they are more in number) were a large supply of money . . .

"The necessity of trust and bartering is one of the many inconveniences springing from the want of money. This inconvenience the multiplying arbitrary denominations will no more supply, nor any ways make our scarcity of coin commensurate to that need there is of it, than if the cloth which was provided for clothing the army, falling short, one should hope to make it commensurate to that need there is of it by measuring it by a yard one-fifth shorter than the standard, or changing the standard of the yard, and so getting the full denomination of yards necessary according to present

measure. For this is all that will be done by raising our coin, as is proposed. All it amounts to is no more but this, viz., That each piece, and, consequently, our whole stock of money, should be measured and denominated by a penny one fifth less than the standard . . .

"The increase of denomination does, or can do, nothing in the case, for it is silver by its quantity and not denomination, that is the price of things and measure of commerce ; and it is the weight of silver in it, and not the name of the pieces that men estimate commodities by, and exchange them for

"If this be not so, when the necessity of our affairs abroad, or ill-husbandry at home, has carried away half our treasure, and a moiety of our money has gone out of England, it is but to issue a proclamation that a penny shall go for two-pence, sixpence for a shilling, half-a-crown for a crown, &c., and immediately, without any more ado, we are as rich as before. And, when half the remainder is gone, it is but doing the same thing again, and raising the denomination anew, and we are where we were, and so on ; whereby, supposing the denomination raised 15-16, every man will be as rich with an ounce of silver in his purse as he was before when he had 16 ounces there, and in as great plenty of money, able to carry on his trade without bartering his silver, by this short way of raising, being changed into the value of gold ; for, when silver will buy 16 times as much wine, oil, and bread, &c., to-day as it would yesterday (all other things remaining the same as the denomination), it hath the real worth of gold

"This, I guess, everybody sees cannot be so, and yet this must be so, if it be true that raising the denomination one-fifth can supply the want or one jot raise the value of silver in respect of other commodities, *i.e.*, make a less quantity of it to-day, buy a greater quantity of corn, oil, and cloth, and all other commodities than it would yesterday, and thereby remove the necessity of bartering. For, if raising the denomination can thus raise the value of coin in exchange for other commodities one-fifth, by the same reason it can raise it two-fifths, and, afterwards, three-fifths, and again, if need be, four-fifths, and as much further as you please. So that, by this admirable continuance of raising our coin, we shall be rich, and as well able to support the charge

of the Government, and carry on our trade without bartering, or any other inconvenience for want of money, with 60,000 ounces of coined silver in England, as if we had six, or 60 millions. If this be not so, I desire anyone to show me why the same way of raising the denomination, which can raise the value of money in respect of other commodities one-fifth, cannot, when you please, raise it another fifth, and so on. I beg to be told where it must stop, and why at such a degree, without being able to go further

"It must be here taken notice of, that the raising I speak of here, is the raising of the value of our coin in respect of other commodities (as I call it all along) in contradistinction to raising the denomination. The confounding of these in discourses concerning money, is one great cause, I suspect, that this matter is so little understood, and so often talked of with so little information of the hearers

"A penny is a denomination no more belonging to eight than to eighty, or to one single grain of silver: and so it is not necessary that there should be 60 such pence, no more nor less, in an ounce of silver, *i.e.*, twelve in a piece called a shilling, and sixty in a piece called a crown: such like divisions, being only extrinsical denominations, are everywhere perfectly arbitrary. For here, in England, there might as well have been twelve shillings in a penny, as twelve pence in a shilling, *i.e.*, the denomination of a less pence might have been a shilling, and of the bigger a penny. Again, the shilling might have been coined ten times as big as a penny, and the crown ten times as big as the shilling; whereby the shilling would have but tenpence in it, and the crown a hundred. But this, however ordered, alters not one jot the value of the ounce of silver, in respect of other things, any more than it does its weight. This raising being but giving of names at pleasure to aliquot parts of any piece, viz., that now the 60th part of an ounce of silver shall be called a penny, and to-morrow that the 75th part of an ounce shall be called a penny, may be done with what increase you please. And thus it may be ordered by a proclamation, that a shilling shall go for twenty-four pence, and half-crown for sixty instead of thirty pence, and so of the rest. But that an half-crown should be worth or contain sixty such pence, as the pence were before the

change of denomination was made, that no power on earth could do. Nor can any power but that which can make the plenty or scarcity of commodities, raise the value of our money their double in respect of other commodities, and make that same piece or quantity of silver under a double denomination, shall purchase double the quantity of pepper, wine, or lead, an instant after such proclamation, to what it would do an instant before. If this could be, we might, as everyone sees, raise silver to the value of gold, and make ourselves as rich as we pleased. But it is but going to market with an ounce of silver, of one hundred and twenty pence, to be convinced that it will purchase no more than an ounce of silver of sixty pence : and the ringing of the piece will as soon purchase more commodities, as its change of denomination, and the multiplied name of pence, when it is called six score instead of thirty"

It may, perhaps, appear to some that the arguments put forward by Locke, are so simple and convincing, that it is almost a waste of ingenuity and labour to dwell on them at such length. But, unfortunately, this is not so. The confusion of ideas between the *name* and the *value* of a coin, is one which is but too prevalent even at the present day. It seems almost incredible that an able man like Mr. Lowndes could perceive that debasing the standard of the coin, by putting less silver and more alloy, was a public fraud, and an injury to all creditors, and yet that he should be totally incapable of perceiving that raising the denomination of the coin was exactly the same thing in principle as debasing the standard. In each case the quantity of pure silver in a crown or a shilling was diminished. Nevertheless, this fallacy is deeply seated even at the present day. It was, moreover, exactly the same fallacy, under another form, which blinded and deluded the Bank of England, the Government, and the House of Commons, in 1811, into their insane vote on the doctrine on the Bullion Report, that the Bank Note was depreciated. But alas ! instead of a Montague willing to learn wisdom from the counsels of a Locke, there was only a Vansittart, who refused to listen to Horner and Canning, and we are still smarting for his infatuation

37. And so it went on till Parliament met in November,

1695. The urgency of the evil caused the subject to be taken up the very first thing by Parliament, and the Commons addressed the Crown to issue a proclamation to name a day when the currency of the clipped money should absolutely cease. A proclamation to that effect was accordingly issued on the 19th December, but the time named in it was so short, that it threw all trade into the utmost confusion. People refused to receive the old money, for fear it should be left on their hands. Evelyn has the following entry in his diary—"12th Jan., 1695-6.—Great confusion and distraction by reason of the clipped money, and the difficulty found in reforming it. 23rd Jan.—They now began to coin new money"

38. The subject, then, of reducing guineas to their original value, was then taken into consideration. A Committee was appointed to take into consideration the price of guineas, on the 13th February, 1696. Several petitions were presented on the subject. The graziers, butchers, and others connected with Smithfield Market, said that £40,000 a week passed through their hands for cattle, which for twelve months past had been paid in guineas at 30*s*. a piece, for want of current silver, a great part of which they had still, and were obliged to keep by them to trade with, and they said that a sudden fall would ruin them. The merchants, woollen drapers, and other traders, stated in their petition, that commerce was brought to a stand by reason of the uncertain value of gold. They thought that a gradual lowering of guineas from time to time would be the only effectual means to remedy the evil, and prevent the loss from being more severe if they were lowered at once. A third petition, from divers merchants and others, said—

"That by reason of the badness of our silver coin, some men have taken occasion to raise guineas to 30*s*. a-piece, which being about 40 per cent. value here above the proportion of gold to silver in any other part of Europe hath caused the bringing over to us vast quantities of gold, causing the exchange to fall, and, consequently, the carrying out of our silver in that disadvantageous proportion, to the impoverishing of the kingdom. That, notwithstanding the care taken to reform the silver coin, yet certain persons continue buying and selling guineas, being

employed therein, as they believe, by persons promoting their private gain, whereby they are still kept up to 29*s.* and 30*s.*; at which rate the petitioners are forced to receive them for debts, but cannot pay them so to the King's receipts, or upon bills of exchange, so that they are necessitated to buy silver money with their guineas, at 3, 4, and 5 per cent. loss, and thereby contribute to the gain of those persons who kept up that trade. That at this time great quantities of gold are bought up and imported hither from Holland, where four of our milled crowns and two weighty shillings will purchase a guinea, the profit whereby is so great, that if some speedy stop be not put to this pernicious trade, our milled money will be melted down and carried away as fast as it can be coined"

Other petitions to the same effect, and corroborating these facts, were also presented

39. It was then carried by a majority of 164 to 129, on the 15th February, 1696, that guineas should be lowered to 28*s.*; on the 28th it was resolved, by a majority of 194 to 140, that after the 25th March, they should be reduced to 26*s.*, and on the 10th April to 22*s.*, and heavy penalties were enacted against all who should deal in them at any other rate, after that date. It was further ordered that the clipped money should be received in payment of taxes till the 4th May, in advances to Government till the 1st July, and after the 1st February, 1697, should absolutely cease to be current. At this time though both gold and silver were legal tender, yet the silver coin was considered as the standard currency, and gold only subsidiary. Debts were considered to be contracted in silver, and when this great disarrangement of the relative value of gold and silver took place, it was considered as a great public grievance. All the heavier pieces were culled out, and sent to Holland, where guineas and bullion might be bought for 22*s.* which passed for 30*s.* in England, the consequence was a steady drain of silver from England, and a continued influx of gold. The Act of Charles II. gave every one the right to have his bullion coined at the Mint free of expense, and many persons had availed themselves of this privilege. By a return presented to the Commons, it appeared that since Lady-day, 1695, up to February,

1696, guineas to the amount of £721,280 had been coined for 149 persons. An Act, statute 1696, c. 13, was passed to take off this privilege, and to prohibit the importation of guineas and half guineas

40. All this time the Bank of England had received the degraded coin at its nominal value. Its notes were payable to bearer on demand. As soon as the new coin came out they were bound to pay them in full weighted coin, that is, for every 7 ounces they received they were bound to give 12. Such a state of things could have but one result—an immediate run upon them took place. Its success had enraged the private bankers and money dealers, whose profits it diminished. All its enemies now made a combined effort to destroy it. They collected its notes in all directions, and, on the 5th May, 1696, they suddenly presented for payment £30,000 in notes. The directors, after a solemn deliberation, knowing the purpose for which these notes were presented, refused payment of them, but continued their payments to their ordinary customers. Their enemies ran about crying that the Bank was destroyed. But the public, who understood the transaction, received their notes at first at their full value. But the extreme scarcity of silver continuing, they were obliged to make a general suspension. They gave notice that they could only pay 10 per cent. on their notes once a fortnight, and, as the demand continued, they were unable to preserve even that payment, and a short time later they were obliged to make a still further suspension, by paying 3 per cent. every three months

41. The following extracts from Evelyn's diary are interesting and important—

"13th May, 1696.—Money still continuing exceedingly scarce, so that none was paid or received, but was all on trust, the Mint not supplying for common necessities

"11th June.—Want of current money to carry on the smallest concerns, even for daily provisions in the markets. Guineas lowered to 22*s.* and great sums daily transmitted to Holland, where it yields more, and other treasure sent to pay the armies, and nothing considerable coined of the new, and now only current

stamp, cause such a scarcity that tumults are every day feared, nobody paying or receiving money. Banks and lotteries every day set up

"26th July.—So little money in the nation that Exchequer tallies on the best fund in England, the Post Office, nobody would take at 30 per cent. discount

"3rd August.—The Bank sending the £200,000 to pay the army in Flanders, that done, nothing against the enemy had so exhausted the treasure of the nation, that one could not have borrowed money under 14 or 15 per cent. on Bills (*i.e.*, Bank of England Bills), or on Exchequer tallies under 30 per cent."

42. We have in our possession a rare pamphlet which has the unusual and fortunate circumstance of bearing on it the day of its publication. It is entitled "An Essay on the Coin and Credit of England, as they stand with respect to its Trade; by John Cary, Merchant, in Bristol. Bristol, printed by Will. Benny, and sold by the booksellers of London and Bristol. October the 22nd, 1696." It would have been fortunate if other pamphleteers had displayed equal forethought for the benefit of posterity, when exact dates are of such importance. This pamphlet contains statements of fact of the first importance in the Theory of the Currency. It says, p. 13—

"When our coin was corrupt and base, all Exchange rose upon us, but now it is returned to its ancient standard, EXCHANGE RETURNS TO ITS OLD COURSE; not that the standard of our money is always the exact rule of our exchange, the balance of our trade often causes it to alter, either to our advantage, or to our loss, besides the charge of management, but this is little in comparison with the other. A familar instance we have in the case of Ireland, *where, whilst our coin was base*, seventy pounds was worth one hundred pounds here, which was in some measure proportionable with the value of pieces of eight, which they took in Ireland by weight, to our clipped money, and also to our guineas at 30*s.* a-piece, and how far this carried the trade of England into that Kingdom, the traders to the West Indies have been too sensible, *but, since the error of our coin hath been corrected, that very Exchange is so much varied* that one

hundred pounds here is worth one hundred and fifteen pounds there

"And since I have mentioned guineas, I cannot let them pass without some observations. How eager was the contest for keeping them up to that exorbitant value! and how unwillingly did the money changers, and those whom they had deceived, yield to the alteration! *Whereas it was well known that the reason why guineas were so high was the badness of our coin*"

This is a conspicuous and decisive instance of the truth of the principles in the chapter on Exchanges, that a restoration of the coinage alone is sufficient to bring the exchanges nearly to par. We then observe that, although at that time, the coin was very scarce, yet the mere fact of the restoration of its *quality* had brought the exchanges to par in October, 1696. We must now enquire what the state of *Credit* was at that time, or the price of bank notes and Exchequer tallies

43. The Bank of England was a Whig project, and had been eminently successful in supporting the Government in the prosecution of the war. It had excited the warmest feelings of joy and congratulation among its friends, and the bitterest feelings of rage and indignation amongst its enemies, and the enemies of the Government. It was not endowed with any monopoly in its favour at that time. The Government of William was composed of a mixture of Whigs and Tories. The Tories determined to get up a rival bank on a much larger scale. The capital was to be £2,564,000 advanced to Government, on the same principle as that of the Bank of England, but its trading capital, notes, &c., were to be advanced solely to landowners for the cultivation of the land at three per cent. It was therefore called a Land Bank. It was warmly patronised by the Tory party. The origin of it is variously ascribed to a Mr. Briscoe and to Dr. Hugh Chamberlen. The Bank of England and all its friends, of course, opposed it with all the power they could, but the temptation was too great, and it was sanctioned by Act of Parliament in April, 1696. The time for taking subscriptions was limited, in the like manner as had been done in the case of the Bank of England.

When the subscriptions opened, the Lords of the Treasury subscribed £5,000 on behalf of the King, but the other subscriptions amounted only to £2,100 when the time came for its closing. It was, therefore, a total and complete failure. The finances of the State were in the utmost disorder, great arrears were due to every branch of the public service, some funds were wholly deficient, others produced much less than was calculated. In the next session of Parliament, the amount of arrears was ordered to be laid before them, and it amounted to the frightful sum of £6,000,459—more than all the current coin in the kingdom was supposed to be. Under these circumstances, when Parliament met in October, 1696, Bank notes were at a discount of 20 per cent. and Exchequer tallies of 40, 50, and 60 per cent., at the same time that the exchanges were restored to par. Every one forboded the total ruin of public credit. The enemies of England rejoiced, and believed that it was utterly irretrievable, and that the great European alliance against France would soon be dissolved

44. Under these depressing circumstances, Parliament met on the 20th of October, 1696. The King congratulated the House on the year having passed away without any disorder, considering the great disappointment in the funds voted at their last meeting, and the difficulties which had arisen from the recoining of the money; he begged them to find out some expedient for the recovery of credit, which was absolutely necessary, not only with respect to the war, but for carrying on trade. The Commons responded with noble alacrity to the desires of the King; they immediately passed a vote, that they would not alter the standard of the gold and silver, in fineness, weight, or denomination, and that they would make good all the deficiencies on the funds. They also repealed the Bill for preventing the coining and importation of guineas, as it had only aggravated the public disorders

45. When the Bank of England was subjected to the mortification of declaring a partial suspension of payments, it endeavoured to retrieve its credit by making two calls of 20 per

cent. each upon its proprietors, the second of which was payable on the 20th November. These measures, however, did not effect their purpose, and the Parliament had to take in hand the great business of restoring the credit of the Bank notes, and the Exchequer tallies. On the 3rd February, 1697, Parliament agreed to increase the capital stock of the Bank, by receiving new subscriptions, which were to be made good in tallies and Bank notes. It passed an Act for this purpose, statute 1697, c. 20. The chief provisions were as follows—

1. All persons, natives or foreigners, bodies politic or corporate, might subscribe to the new stock, and the subscriptions might be paid, four-fifths in Exchequer tallies and one fifth in Bank notes, upon which the Crown would allow 8 per cent.

2. Before the 24th July, 1697, the capital stock of the Bank was to be estimated, and made up to 100 per cent. ; any deficiency was to be made up rateably by the proprietors, and any overplus to be rateably paid back to them

3. All such subscribers were to be incorporated with the proprietors of the old stock

4. The time when the Crown might put an end to the corporation was prolonged to twelve months after the 1st August, 1710, and repayment of all parliamentary debts

5. It was enacted, that during the continuance of the Corporation of the Governor and Company of the Bank of England, no other Bank, or any other corporation, society, fellowship, company, or constitution, in the nature of a bank, shall be erected, or established, permitted, suffered, countenanced, or allowed by Act of Parliament, within this kingdom

6. The Bank were allowed to extend their issues of notes beyond the original capital of £1,200,000, to the amount of new capital which should be subscribed, provided that they were made payable to bearer on demand : and in case they made default in such payment, they might be paid on presentment at the Exchequer, out of the annuity due to the Bank. All notes above the sum of £1,200,000, were to bear a distinguishing mark

7. All the property of the Bank was exempted from taxes

8. Bank Stock was to be personal property, and not real

9. It was made felony to forge or counterfeit any Bank note

or obligation under the Common Seal, or altering or erasing any indorsement on such a note or bill

10. Bank Stock exempted from any foreign attachment

11. The debts of the Corporation forbidden to exceed their capital stock; if they did so, the Members were liable in their private capacity

12. All persons were forbidden to buy or sell tallies at more than the legal rate of interest, under the penalty of forfeiting treble the value of the money

46. Such were the measures taken to restore the credit of the Bank, and we observe that their own depreciated notes were taken in payment as specie at their full amount. The public, however, was still grievously suffering for want of a circulating medium during the slow process of the recoinage. The Bank of England did not issue notes below £20, which were of little use for the general purposes of business. The Chancellor of the Exchequer, Montague, hit upon the plan of issuing bills upon the Exchequer for £5 and £10. These bills at first passed at a small discount, but, upon the second issue of them, £7 12*s.* interest per cent. was allowed, and they were received in payment of taxes at par. They soon rose to par. The Treasury was authorised to contract with any persons to cash these Exchequer bills on presentment, allowing them a moderate premium. They were allowed 10 per cent. at first, but the Exchequer bills soon rose above par, and then the interest was reduced to 4 per cent. Under this Act, upwards of £2,000,000 of Exchequer bills were issued

47. The new subscriptions to the Bank, under this Act, amounted to £1,001,171 10*s.*; two hundred thousand pounds worth of Bank notes and eight hundred thousand of Exchequer tallies being taken out of circulation, and received at par in the subscription, raised the value of the remainder, and, in the course of the year, Bank notes which bore no interest were at par, and the bills which bore interest were at a premium

48. When we consider the unquestionable services the Bank had rendered the Government, which contributed so greatly to the success of the war, and the pacification of Ryswick, and when we

consider the terrific state of public credit, owing very much to the total failure of the Land Bank, we need not be surprised that the Bank of England employed those circumstances for the purpose of securing a monopoly for themselves. Nor, considering the ideas of that age, can be we surprised that they received it. But nevertheless, making allowances for all these circumstances, it is one of the most deplorable acts that have come down to our time. The founders and contemporaries of the Bank felt the benefit of its eminent services, but the consequences of this original sin fell with terrific force on their descendants of the third and fourth generation. The frightful convulsions and collapses of public credit which have taken place during the last three quarters of a century are chiefly due to this great wrong, and violation of the true principles of trade. English banking has never recovered its fatal effects to this day, and many years must elapse before it will arrive at the form to which it is gradually tending, and which it would naturally have assumed, if its development had been left free to the skill and experience of men of business

49. We have felt it necessary to be thus minute and circumstantial in the account of this great monetary crisis, because it is of very great importance in the Theory of the Currency, and because it has been very prominently noticed in the Bullion Report, and we must now examine the account of it given there

But we must first of all give a statement of the Discount on Bank Notes and the Rates of Exchanges during 1696 and 1697

STATEMENT OF THE DISCOUNT PER CENT. ON BANK NOTES

1696.	£	s.	1697.	£	s.	1697.	£	s.
July 9	16	0	Jan. 30	19	0	Aug. 3	7	0
„ 16	8	0	Feb. 18	21	0	„ 26	3	10
„ 28	10	0	„ 20	24	0	„ 28	2	0
Aug. 25	15	0	Mar. 23	23	10	Sept. 18	1	0
Sept. 12	17	0	April 3	18	0	Oct.	par	
Oct. 10	12	0	May 20	18	0			
„ 22	18	0	June 5	13	0			
„ 27	14	0	„ 17	13	0			
Dec. 26	17	0	„ 24	10	0			

STATEMENT OF THE RATES ON THE LONDON EXCHANGE DURING 1695—1696

	Amsterdam	Rotterdam	Genoa	Antwerp	Hamburg	Cadiz	Madrid	Venice
April 23, 1695 .	31·2	31·4	56·29	30·11	29·11	56·2	56·1	59·
Jan. 24, 1696 .	31·0	31·2	60·	31·	29·9	60·0	60·	63·
May 2, ,, .	30·1	30·2	64·	30·	28·8	60·	61·	61·2
July 19, ,, .	29·3	30·6	65·	29·	—	60·	—	—
July 28, ,, .	38·7	33·9	58·	33·	32·4	53·	58·	54·
Sept. 29, ,, .	36·5	36·7	54·	36·	35·	48·	49·	51·
Octr. 6, ,, .	36·8	36·10	53·2	35·7	35·8	48·	49·	—
Novr. 6, ,, .	37·4	37·6	52·2	37·2	36·4	47·	48·	49·
Decr. 16, ,, .	37·8	37·10	51·	37·8	36·8	46·2	47·	49·

In interpreting this table, we perceive that a great change in the figures took place at the end of July, 1696. Some *rise* very much, others *fall*. The fact was, that it was at this period that the new coinage came out in great abundance. This rectified the exchanges, and those *from* which London *received* the variable price would of course *rise;* those *to* which London *gave* the variable price would of course *fall;* as explained in the chapter on Exchanges, § 5. These figures denote the Rates of Exchange as paid in coin. But we have a statement of the difference between the Rates of Exchange as they were paid in coin, or Bank Notes, during the winter of 1696-97, given in *A Collection for the Improvement of Husbandry and Trade*, thus :—

	Dec. 16, 1696		Feb. 23, 1697		Mar. 2, 1697	
	Money	Bank Note	Money	Bank Note	Money	Bank Note
Amsterdam	37·8	.. 31.19	36·3	.. 29·	36·5	.. 29·2
Rotterdam.....	37·10	.. 31·10	36·5	.. 29·2	36·7	.. 29·4
Antwerp.....	37·8	.. 31·9	36·4	.. 29·2	36·6	.. 29·4
Hamburg	36·8	.. 30·9	35·5	.. 28·2	35·9	.. 28·2
Cadiz	46·2	.. 55·	47·1	.. 58·	46·3	.. 58·2
Madrid	47·2	.. 67·	48·	.. 58·	47·3	.. 59·2
Leghorn.....	51·2	.. 61·1	52·	.. 64·	52·	.. 63·
Venice	49·	.. 58·	49·	.. 60·	49·	.. 61·
Discount on Bank Notes	16·		21·		22·	

Having given these tables, which are of the utmost importance in the Theory of the Currency, and to which we shall hereafter refer, we may now see what the Bullion Report states

It says, p. 17—

"The experience of the Bank of England itself, within a very short period of its first establishment, furnishes a very instructive illustration of all the foregoing principles and reasonings. In this instance, the effects of a depreciation of the coin by wear and clipping *were coupled with the effect of an excessive issue of paper*. The Directors of the Bank of England did not at once attain a very accurate knowledge of all the principles by which such an institution must be conducted. They lent money, not only by discount, but upon real securities, mortgages, and even pledges of commodities not perishable; at the same time, the Bank contributed most materially to the service of Government for the support of the army on the continent. By the liberality of those loans to private individuals, as well as by the large advances to Government, the quantity of the notes became excessive, their relative value was depreciated, and they fell to a discount of 17 per cent. At this time there appears to have been no failure of the public confidence in the funds of the Bank, for its stock sold at £110 per cent., though only 60 per cent. upon the subscriptions had been paid in. By the conjoint effect of this depreciation of the paper of the Bank from excess, and of the depreciation of the silver coin from wear and clipping, the price of *gold bullion was so much raised that guineas were as high as* 30*s.*: all that remained of good silver gradually disappeared from circulation, and the exchange with Holland, which had been before a little affected by the remittances for the army, sunk as low as 25 per cent. under par, when the Bank notes were at a discount of 17 per cent. Several expedients were tried, both by Parliament and the Bank, to force a better silver coin into circulation, and to reduce the price of guineas, but without effect. At length the true remedies were resorted to; first, by a new coinage of silver, which restored that part of the currency to its standard value, though the scarcity or money occasioned by calling in the old coin, brought the Bank into straits, and even for a time affected its credit. [Surely, if Bank notes were at a discount of 17 per cent. *before* this, its credit was affected.] Secondly, by taking out of the circulation the excess of Bank notes. In proportion to the amount of notes sunk in this manner, the value of those that remained in circulation

began presently to rise ; in a short time notes were at par, and the foreign exchanges nearly so. These details are all very fully mentioned in authentic tracts, published at the time, and the case appears to your Committee to afford much instruction upon the subject of their present inquiry"

The Report refers, in a marginal note, to A Short Account of the Bank, by Mr. Godfrey ; A Short History of the last Parliament, 1699, by Dr. Drake

50. On examining this paragraph, it may be said to contain the following allegations—

1. That, very soon after the foundation of the Bank, it made excessive issues of paper

2. That, in consequence of these excessive issues, *and while they continued to pay their notes in specie on demand*, their notes fell to 17 per cent. discount

3. That in *consequence* of these excessive issues of paper by the Bank, and the depreciation of the silver coin from wear and clipping, guineas rose to 30*s.* from 21*s.* 6*d.*, and that the remaining good silver disappeared from circulation

4. That in consequence of the two preceding causes, Exchange with Holland rose to 25 per cent. against England

5. That many attempts were made by the Bank and Parliament to reduce the price of guineas, and force a better silver coinage into circulation, which all failed

6. That measures were at length resorted to of calling in the old silver coinage, and re-issuing it at full weight, and taking the excessive issues of the Bank out of circulation, which were finally successful, restored the Bank notes to par, and restored the Exchanges

The Committee ground their allegations upon Mr. Godfrey's pamphlet on the Bank, and Dr. Drake's History of the last Parliament, 1699, as well as a number of anonymous pamphlets to which they give us no clue to discover their names

51. We must now examine each of these propositions separately

With respect to the first, what is, or what is not an excessive

issue, is a matter of so much speculation that it is quite impossible to affirm or deny it

With respect to the second allegation, there is not only no evidence in its favour in the pamphlets quoted, but the most overwhelming evidence against it. Mr. Godfrey's pamphlet was written in 1695, when the credit of the Bank was in the most flourishing condition, when he makes this credit a matter of great boast, and he says that the only reason why the credit of the Bank notes was so good, was that their holders knew that they could get their *money instantly on demand* for them. Mr. Godfrey was killed at Namur, in July, 1695, and Bank notes were not at a discount till May, 1696

With respect to the third allegation, we have the most positive and overwhelming evidence the guineas were at 30*s.* in the spring of 1695, when the credit of the Bank was unimpeached and its notes were all paid instantly on demand

With respect to the fourth allegation, we have already seen that the exchange on Holland was at 25 per cent. against England in 1695, nearly one year before Bank notes were at a discount

The fifth allegation is entirely erroneous. Parliament made no attempt to reduce guineas till February, 1696, when the silver coin had already been called in

The commencement of the sixth allegation is quite wrong in point of time. It is an unquestionable fact, testified by the most conclusive evidence, that it was the scarcity of money while the old was called in, and before the new was fully in circulation, that caused Bank notes to fall to a discount, and their receiving the old coin at its nominal value, and binding themselves to pay in the new. We have read a considerable number of pamphlets of that period, and they all with one voice attribute the price of guineas, and the adverse state of the Exchanges, to the *badness of the coin and to that only*. This Report, then, is not borne out in any of these statements by the authorities they have cited. The only one in which they are correct, is that the new subscription in Bank notes and tallies raised their credit, by reducing their quantity, but they have been misled by Dr. Drake in saying that the exchanges began to recover at the same time. Dr. Drake, being a clergyman, and writing some years after the event,

probably did not have his attention directed to so minute a point as the exact date when the Exchanges rose to par, but we have in a pamphlet already quoted, written by a merchant, and dated on the 22nd of October, 1696, the express fact stated *that at that time the Exchanges were at par*, in consequence of the good coin which had been issued, whereas Bank notes were still at a heavy discount in June, 1697

52. We have been thus minute in examining the circumstances of this great monetary crisis because we shall see hereafter that it is of great importance in establishing the true Theory of the Currency. We have, we think, shown by the most conclusive evidence, that this paragraph in the Bullion Report is full of the gravest chronological errors, in a matter in which minute accuracy of dates is all important

53. There was one circumstance which we have not seen noticed by any writer, which we may probably suppose contributed greatly to increase the discount at which the notes were. There were none at that time under £20, and notes of that amount must have been obviously unfit for the ordinary purposes of trade. The great want was small change, but that had almost entirely disappeared, consequently, when the holder of one of these notes wanted change, he must have made a much greater sacrifice than was warranted by any want of confidence in the Bank. Under these circumstances we may be somewhat surprised that no one hit upon a plan which would certainly have been successful, namely, an issue of £1 notes, to have supplied the deficiency until a sufficient quantity of guineas had been coined for circulation

54. The issue of small Exchequer bills was entirely successful, although they had not a forced currency. The great cause of the mischief to the Bank was, that the old and the new coin were allowed to circulate together, which all experience showed would inevitably drive all the new coin out of circulation. And this is exactly what did happen

"While the hammered money, and pieces not clipped within the ring, were permitted to pass, for the present necessity of

trade, nobody was willing to make payments in new money, which so much exceeded the old in intrinsic worth. And, therefore, the new silver money as fast as it issued from the Mint and Exchequer, was in a great measure stopped in the hands of its first receivers, for none were disposed to make payments in the new silver coin at the old standard, when they could do it in clipped pieces so much below it. And those who had no payments to make, kept their new money as medals and curiosities in their chests, and there is reason to believe that at first a great quantity of new money, by the help of the melting pot, went abroad in ingots to purchase gold, which at this juncture was a very profitable commodity in England"

55. In this great discussion, all the fallacies which are so specious and plausible, and which were maintained with so much earnestness 116 years later, were put forward—except one. The invariable language of all writers at that period was that the Bank notes were depreciated. They always speak of the notes *being at a discount*, it was reserved to modern ingenuity to discover the crowning absurdity—that it was not notes that had fallen, but gold that had risen !

56. The Bank was instituted for the purpose of assisting the Government in the war with France, and did very materially do so in 1695, when its credit was high. In the next year, however, it continued to do the same, when its credit was greatly shaken. This no doubt was of great assistance to the army, and its conduct is highly lauded by Dr. Drake, but some of its own proprietors thought very differently of its management. In a pamphlet entitled *A Second Part of a Discourse concerning Banks*, which was published by one of them, which bears no date, but which was most probably written in 1697, which contains a series of excellent rules for the conduct of a bank, the direction is severely censured for dealing in exchanges, for running into remittances, and launching too deeply into loans, to which causes the author attributes the loss of their credit. This would seem to allude to the loan mentioned by Evelyn

57. The political troubles at the commencement of the next century placed the Bank in difficulties again in 1704 and 1707. In the latter year the revived hopes of the Jacobite faction, roused by the preparations of Louis XIV., threw the country into a panic. The public stocks sunk 14 to 15 per cent. The enemies of the dynasty, and the enemies of the Bank, combined to make a run upon it. The private bankers tried to swamp their great rival, and Sir Francis Child pretended to refuse its notes. These malicious proceedings, however, called forth an equal amount of ardour from the Government and its friends. Several of the highest nobility came forward to lend money to the Corporation, and the Queen lent it her warmest support. The directors made a call of 20 per cent. on their proprietors, and, by these means, surmounted their difficulties and restored their credit

58. In 1709 the Government were again in a state of great pecuniary embarrassment. The produce of the taxes scarcely covered one half of the expenses. In this extremity, the Ministry turned to the Bank of England, and, by mutual arrangement, the following terms were proposed and accepted by Parliament—

1. That the interest upon their original stock of £1,200,000 be reduced to 6 per cent., with an allowance of £4,000 for managing the debt

2. That they were to advance a further sum of £400,000 at 6 per cent. interest

3. That they should be allowed to double their present capital of £2,201,171 10*s.* at the price of 115 per cent. for the new stock. Upon which they agreed to circulate £2,500,000 of Exchequer bills, and receive an allowance of 6 per cent., one half for interest, and the other for repayment of the principal, and that no more Exchequer bills should be issued without the consent of the Bank

4. That their privileges as a Corporation should be continued for 21 years from 1st August, 1711

The subscription lists for the new stock were opened on the 22nd February, 1709, at nine in the morning, and by one o'clock the whole sum was subscribed at a premium. And a million

more might have been subscribed before evening if there had been room

59. The Act of 1697 had only provided that no other bank should be sanctioned by Act of Parliament; it did not prohibit any private Joint Stock Bank from being formed, nor any other corporation, or company setting up banking business. A company, called the Mine Adventurers of England, at the head of whom was Sir Humphry Mackworth, who turned out to be a great rogue, commenced doing all kinds of banking business, issuing notes, &c. To put a stop to this it was enacted—

"That during the continuance of the said Corporation of the Governor and Company of the Bank of England, it shall not be lawful for any body politic or corporate whatsoever, erected or to be erected (other than the said Governor and Company of the Bank of England), or from any other persons whatsoever united, or to be united, in covenants, or partnership, exceeding the number of six persons, in that part of Great Britain called England, *to borrow, owe, or take up any sum or sums of money on their bills or notes payable at demand, or at any less time than six months from the borrowing thereof*"

And the Bank was strictly forbidden to issue notes to a larger amount than their capital stock. That is, each loan to Government was attended with an *augmentation* of Currency to an equal amount. Now to a certain extent this plan might be attended with no evil consequences, but it is perfectly clear that its *principle* is utterly vicious. There is nothing so wild or absurd in John Law's Theory of Money as this. His scheme of basing a paper currency upon land is sober sense compared to it. If for every debt the Government incurs, an equal amount of money is to be created, why here we have the philosopher's stone at once. What is the long sought El Dorado compared to this? Even there the gold required to be picked up, and fashioned into coin. Besides, people in this country would have to go round the globe in search of it. But let us coolly consider the principle involved in this plan of issuing notes upon the security of the public debts. Stated in simple language, it is this—*That the way to* CREATE *money is for the Government to* BORROW *Money.* That is to say,

A lends B money on mortgage, and on *the security of the mortgage, A is allowed to create an equal amount of money to what he has already lent! !* Granting that to a small extent this may be done without any practical mischief, yet, as a general principle, what can be more palpably absurd ? The ravings of Chamberlen himself are not more wild

60. At that time the practice of issuing notes was considered so essentially the main feature of banking, that a prohibition of that was considered an effectual bar against banking. The clause quoted above was intended to prevent any bank being formed with more than six partners, so as to prevent any private Company being formed of sufficient power and influence to rival the Bank. It was so understood at the time, and it did have the effect of preventing any other Joint Stock Bank being formed

61. The financial difficulties of the Government in the year 1713, at the Peace of Utrecht, made it necessary to have recourse to the Bank again. They agreed to lend to the Government £100,000, secured upon Exchequer bills, at 3 per cent., upon receiving an extension of their charter, which had still twenty years to run. By the Statute I., 1713, c. 11, its existence as a corporation was prolonged to twelve months' notice, to be given after 1st August, 1742, and the payment of £1,600,000. By a second statute that year, they were authorised to lend money upon South Sea Stock

62. In 1716, an Act, Statute 1716, c. 8, was passed to redeem and modify several of the public debts due to the Bank, but not altering their privileges in any way, and to make further advances at 5 per cent. They were also authorised to make such calls as they pleased upon their proprietors. The excessive absurdity and inconvenience of the usury laws in commerce were even then felt, and the Bank was exempted from their operation. They were authorised, in the quaint phraseology of the Act, "at their own good liking," to borrow or take up money at any rate of interest they pleased, above the legal rate, upon their bills, bonds, or any obligation under their Common Seal, or upon

credit of their capital stock for any time, or to be paid on demand. What portentous folly it was that any one else might not observe his "own good liking" in the rate he paid for borrowed money. In this Act, the clause prohibiting any banking partnership to consist of more than six members was repeated. There were at that time three annuities of £88,751, £100,000, and £76,830, besides other debts, upon which an annual interest of 5 per cent. was paid; the Bank's existence was prolonged indefinitely, until all these annuities and debts were discharged

63. We must now again take up the history of the Coinage, and give an account of its last change, and its settlement on its present basis. The Government, adopting the advice of Locke and Newton, restored the coin according to its ancient weight, fineness, and denomination

The political benefits which followed this great restoration of the coinage are beyond the purpose of this work. In 1707, the union of the kingdoms necessitated a new coinage. At the same time the relative value of the gold and silver coins began to differ from the market value of the two metals, and, as silver was underrated, it became very scarce. It is much to be lamented that the Government, having adopted Locke's arguments in favour of the maintenance of the standard, did not also adopt his argument with respect to the necessity of there being only one standard of value. It was perfectly conclusive, and the evils, which he had shown must necessarily follow from this economic error of having two measures of value, manifestly displayed themselves. In 1708, the Government offered a premium of $2\frac{1}{2}d.$ per ounce to every one who brought foreign silver coin, or plate of any sort, of standard fineness, to the Mint to be coined. This, however, was quite ineffectual, and as matters grew worse every day, the Government referred the matter to Sir Isaac Newton, who had for many years been at the head of the Mint, to report upon

Sir Isaac Newton said in his Report—"That a pound weight Troy of gold, 11 ozs. fine, and 1 oz. alloy, is cut into $44\frac{1}{2}$ guineas; and a pound weight of silver, 11 ozs. 2 dwts. fine, and 18 dwts. alloy, is cut into 62 shillings; and, according to this

rate, a pound weight of fine gold is worth 15 pounds weight 6 ozs. 17 dwts. and 5 grs. of fine silver, reckoning a guinea at £1 1*s.* 6*d.* in silver money. But silver in bullion, exportable, is usually worth 2*d.* or 3*d.* per ounce more than in coin; and if, as a medium, such bullion of standard alloy be valued at 5*s.* 4½*d.* per ounce, a pound weight of fine gold will be worth but 14 lbs. 11 ozs. 12 dwts. 9 grs. of fine silver in bullion; and, at this rate, a guinea is worth but so much silver as would make 20*s.* 8*d.* When ships are laden for the East Indies, the demand of silver for exportation raises the price to 5*s.* 6*d.* or 5*s.* 8*d.* per ounce, or above; but I consider not these extraordinary cases

"A Spanish pistole was coined for thirty-two rials, or four pieces of eight rials, usually called pieces of eight, and is of equal alloy, and the sixteenth part of the weight thereof; and a Doppio Moeda of Portugal was coined for ten crusados of silver, and is of equal alloy, and the sixteenth part of the weight thereof. Gold is, therefore, in Spain and Portugal, of sixteen times more value than silver of equal weight and alloy, according to the standard of those kingdoms; at which rate a guinea is worth 22*s.* 1*d.* But this high price keeps their gold at home in good plenty, and carries away the Spanish silver into all Europe: so that at home they make their payments in gold, and will not pay in silver without a premium; upon the coming in of a Plate fleet the premium ceases, or is but small; but, as their silver goes away and becomes scarce, the premium increases, and is most commonly about six per cent., which, being abated, a guinea becomes worth about 20*s.* 9*d.* in Spain or Portugal

"In France a pound weight of fine gold is reckoned worth fifteen pounds weight of fine silver; in raising or falling their money, their King's edicts have sometimes varied a little from this proportion, a little in excess or defect; but the variations have been so little, that I do not here consider them. By the edict of May, 1709, a new pistole was coined for four new Louises, and is of equal alloy, and the fifteenth part of the weight thereof, except the errors of their Mints; and by the same edict, fine gold is valued at fifteen times its weight of fine silver; and at this rate a guinea is worth 20*s.* 8½*d.* . . .

"The ducats of Holland and Hungary, and the Empire, were lately current in Holland among the common people, in their markets and ordinary affairs, at five gilders in specie, and five stivers; and commonly changed for so much silver moneys in three-guilder pieces and guilder pieces, as guineas are with us for 21*s.* 6*d.* sterling; at which rate a guinea is worth 20*s.* 7½*d.*

"According to the rates of gold to silver in Italy, Germany, Poland, Denmark, and Sweden, a guinea is worth about 20*s.* and 7*d.*, 6*d.*, 5*d.*, or 4*d.*, for the proportion varies a little within the several Governments in these countries. In Sweden, gold is lowest in proportion to silver, and this hath made that kingdom, which formerly was content with copper money, abound of late with silver, sent thither (I suspect) for naval stores

"In the end of King William's reign, and the first year of the late Queen, when foreign coins abounded in England, I caused a great many of them to be assayed in the Mint, and found by the assays, that fine gold was to fine silver in Spain, Portugal, France, Holland, Italy, Germany, and the northern kingdoms, in the proportions above mentioned, errors of the Mint excepted

"In China and Japan, one pound weight of fine gold is worth but 9 or 10 pounds weight of fine silver; and in East India it may be worth 12; and this low price of gold in proportion to silver carries away the silver from all Europe

"So, then, by the course of trade and exchange between nation and nation in all Europe, fine gold is to fine silver as 14 4-5, or 15 to one; and a guinea at the same rate is worth between 20*s.* 5*d.* and 20*s.* 8½*d.*; except in extraordinary cases, as when a Plate fleet is just arrived in Spain, or ships are laden here for the East Indies, which cases I do not here consider. And it appears by experience as well as by reason, that silver flows from those places where its value is lowest in proportion to gold, as from Spain to all Europe, and from all Europe to the East Indies, China, and Japan; and that gold is most plentiful in those places in which its value is highest in proportion to silver, as in Spain and England

"It is the demand for exportation which hath raised the price of exportable silver about 2*d.* or 3*d.* in the ounce above that of

silver in coin, and hath thereby created a temptation to export or melt down the silver coin rather than give 2*d.* or 3*d.* more for foreign silver; and the demand for exportation arises from the higher price of silver in other places than in England, in proportion to gold, that is, from the higher price of gold in England than in other places in proportion to silver, and, therefore, may be diminished by lowering the value of gold in proportion to silver. If gold in England, or silver in East India, could be brought down so low as to bear the same proportion to one another in both places, there would be here no greater demand for silver than for gold to be exported to India. And if gold were lowered only so as to have the same proportion to the silver money in England, which it hath to silver in the rest of Europe, there would be no temptation to export silver rather than gold to any other part of Europe. And to compass this last, there seems nothing more requisite than to take off about 10*d.* or 12*d.* from the guinea; so that gold may bear the same proportion to the silver money in England which it ought to do by the course of trade and exchange in Europe. But if only 6*d.* were taken off at present, it would diminish the temptation to export or melt down the silver coin. And, by the effects, would show hereafter better than can appear at present, what further reduction would be most convenient for the public

"In the last year of King William, the dollars of Scotland, worth about 4*s.* 6½d., were put away in the North of England for 5*s.*, and at this price began to flow in upon us. I gave notice thereof to the Lords Commissioners of the Treasury; and they ordered the collectors of taxes to forbear taking them, and thereby put a stop to the mischief

"At the same time, the louis d'or of France, which were worth but 17*s.* ¾*d.* a piece, passed in England at 17*s.* 6*d.* I gave notice thereof to the Lords Commissioners of the Treasury; and his late Majesty put out a proclamation that they should go but at 17*s.*; and, thereupon, they came to the Mint, and £1,400,000 were coined out of them; and if the advantage of 5¼*d.* in a louis-d'or sufficed at that time to bring into England so great a quantity of French Money, and the advantage of three farthings in a louis-d'or to bring it to the Mint, the advantage of 9½*d.* in a guinea, or above, may have been sufficient to bring the great quantity of

gold which hath been coined in these last fifteen years, without any foreign silver

"Some years ago, the Portugal moedors were received in the West of England at 28*s.* a-piece. Upon notice from the Mint, that they were worth only about 27*s.* 7*d.*, the Lords Commissioners of the Treasury ordered their receivers of taxes to take them at no more than 27*s.* 6*d.* Afterwards, many gentlemen in the West sent up to the Treasury a petition, that the receivers might take them again at 28*s.*, and promised to get returns for money at that rate; alleging, that when they went for 28*s.*, their country was full of gold, which they wanted very much. But the Commissioners of the Treasury, considering that at 28*s.* the nation would lose 5*d.* a piece, rejected the petition. And if an advantage of 5*d.* in the 28*s.* did pour that money in upon us, much more hath an advantage to the merchant of $9\frac{1}{4}d.$ in a guinea, or above, been able to bring into the Mint great quantities of gold, without any foreign silver, and may be able to do so still, till the cause be removed

"If things be let alone till silver money be a little scarcer, the gold will fall of itself; for people are already backward to give silver for gold, and will in a little time refuse to make payments in silver without a premium, as they do in Spain; and this premium will be an abatement of the value of the gold; and so the question is, whether gold shall be lowered by the Government, or let alone till it falls of itself, by the want of silver money

"It may be said, that there are great quantities of silver in plate, and if the plate were coined, there would be no want of silver money. But I reckon that silver is safer from exportation in the form of plate than in the form of money, because of the greater value of the silver and fashion together; and, therefore, I am not for coining the plate, till the temptation to export the silver money, which is a profit of 2*d.* or 3*d.* an ounce, be diminished; for, as often as men are necessitated to send away money for answering debts abroad, there will be a temptation to send away silver rather than gold, because of the profit, which is almost 4 per cent.; and for the same reason foreigners will choose to send hither their gold rather than their silver"

Mr. Aislabie, the Chancellor of the Exchequer, brought the subject of the great scarcity of silver coin before the House on the 21st December, 1717, and was seconded by Mr. Caswall, who gave details of the different relative values gold and silver coin had borne with respect to each other, according to the plenty or scarcity of each, and said that the over-valuation of gold in the current coins of Great Britain had caused the exportation of great quantities of silver specie. To prove this, he laid open a clandestine trade which had been carried on for many years by the Dutch, Hamburghers, and other foreigners, in concert with the Jews and other traders here, which consisted in exporting silver coins, and importing gold in lieu thereof, which being coined into guineas at the Tower, near 15*d.* was got by every guinea, which amounted to about 5 per cent.: and, as these returns might be got five or six times in the year, considerable profits were made by it. In his opinion, the only way of checking this was to lower the price of guineas and other gold specie

Sir Isaac Newton has shown that the true value of the guinea, according to the market values of gold and silver at that time, was 20*s.* 8*d.* The House, however, did not adopt his recommendation to its full extent, but they addressed the Crown to issue a proclamation to make guineas current at 21*s.* In accordance with this, the King issued a proclamation on the 22nd December, 1717, making guineas current at 21*s.*, and reducing the other gold coins from 23*s.* 6*d.* and 25*s.* 6*d.* to 23*s.* and 25*s.* each

This was the last alteration made in the relative values of gold and silver coin, and now, in the language of the Mint, the price of gold was fixed at £3 17*s.* 10½*d.* an ounce, which is so sore a puzzle to many persons. This alteration in the value of guineas created some alarm that it might be further reduced, and caused considerable confusion in trade, but, in January, 1718, both Houses of Parliament passed resolutions that they would not alter the standard of the gold and silver coins of the kingdom in fineness, weight, or denomination

By the reduction of the price of the guinea, the value of gold to silver was fixed at $15\frac{14}{62}\frac{28}{62}\frac{5}{0}$ to one ; but, as in Holland and France the rate was 14½ to 1, a profit still remained on exporting

silver and importing gold. Thus gold became the cheapest medium in which to make payments ; and, by this means, during the course of the last century, it became gradually an understood thing in commerce that gold was the standard of value. This custom was finally adopted as law in 1816

64. Up to the year 1711 all the permanent debt contracted by the Government consisted of Bank of England Stock. In order to replace the capital thus withdrawn from circulation, the Bank had always been allowed to issue notes to an equal extent : but it was quite evident that this could not go on indefinitely. At this period the party antagonistic to that which founded the Bank of England were in power. The dismissal of the Whigs had shaken public credit. The unfunded debt of the State was enormous—it amounted to nine millions and a half. Mr. Harley (afterwards Earl of Oxford), the Chancellor of the Exchequer, revived the idea which we have before noticed, as first suggested by Dr. Chamberlen. He persuaded a number of merchants to undertake this debt, upon receiving interest at 6 per cent., and being incorporated as a company for 32 years, with the exclusive privilege of trading to the South Seas. This was hailed by his party at the time with great approbation, as a masterpiece of financial wisdom. Such was the origin of the South Sea Company. We cannot, of course, enter into any of the details of this famous scheme, beyond what strictly concerns our present subject. Ample details will be found elsewhere. Though especially forbidden by Act of Parliament to carry on banking business, this great monetary corporation overshadowed the Bank of England. In 1717, the Government determined to make a strong effort to reduce the national debts. Proposals were invited from each of these great companies. The South Sea Company proposed that their then capital of £10,000,000 should be augmented to £12,000,000 ; that the additional £2,000,000 should be employed in redeeming several public debts, and among these the banker's debt : that the interest on their original capital should remain at 6 per cent., and interest at five per cent. should be given on the new capital till the 24th June, 1718. After that date interest at 6 per cent. should be allowed on the whole capital. That the duties upon which such

interest was chargeable should be continued, and any surplus, after paying them, should be applied to redeem other public debts. That all sums of principal and interest might be redeemed after a year's notice, after 24th of June, 1725. That their capital and stock in trade should be exempted from all taxes whatever

65. The Bank of England proposed that their privileges should remain untouched till 1742, as by the last Act. That an annuity of £106,500 due to them, should be reduced to £88,175 after the 25th March, 1718. They offered to advance £2,000,000, at 5 per cent. interest, on Exchequer bills redeemable at one year's notice after 1720, and to circulate some others at 3 per cent. That the interest on the Exchequer bills they held should be reduced to 1*d.* per cent. per diem, but that no more should be issued without their consent. They were further willing to advance £2,500,000 for the public service at the rate of 5 per cent. per annum. They demanded that all their privileges should continue until these sums were redeemed. After a warm debate, the proposals of the South Sea Company were accepted. The Bank of England, however, remonstrated strongly, and petitioned Parliament, reminding them of their eminent public services, and requested that all the public stocks might be made transferable and payable at the Bank, which duty they undertook to perform without any profit to themselves, on condition that no further taxes be laid on their capital, or upon their bills and notes. Upon further debate, the proposals of the Bank of England were accepted, as well as those of the South Sea Company, and three Acts were passed to carry them into effect. At this time the South Sea Company appeared to have got so completely the better of the Bank, that they invited the King to become their Governor, and, on the 1st of February, 1715, an Act was brought in to remove any difficulties in the way. It was read and passed through both Houses on the same day, and on the next received the Royal assent

66. The skirmish between these two great corporations in 1717, was but the prelude to a much more gigantic contest in 1720. On the 23rd November, 1719, the King recommended

the state of the public debts to the attention of Parliament. This was preliminary to the introducing a plan to Parliament which the Ministry and the South Sea Directors had secretly projected, and determined to bring before Parliament, before any opposition could be organised against it. It was brought before the House on the 22nd January, 1720. The details are given in the Parliamentary History, and are much too long to be inserted here. But the outline was as follows—They estimated the whole of the public debts at £30,981,712 ; they proposed to buy up the whole of these, and consolidate them into one fund, which was to be added to their capital at 5 per cent. interest. For these privileges they offered a *bonus* of £3,500,000 to the State, payable in four instalments, to commence at Lady-day, 1721. This astounding proposal was brought before the House by surprise, but its terms were not so favourably received as was expected, and gave the friends of the Bank time to rally. They reminded the House of the great and eminent services it had done the public, and obtained five days' delay

67. The Bank determined not to be outdone in audacity. They also undertook to consolidate these debts, and add them to their capital. Upon the whole, it was calculated that their proposal was more advantageous to the nation by about £2,000,000, and was payable in less time. The South Sea Company obtained three days' delay to amend their offer. They increased the bonus to the public to £7,567,500, besides other minor points. The Bank, in a fit of wild desperation, amended their offer. The chief points were, that for every £100 annuity for 96 and 99 years, they offered £1,700 Bank Stock, and that, after the 24th June, 1727, the interest on the whole consolidated funds should be reduced to 4 per cent. absolutely, and thenceforth be redeemable by Parliament

68. The contest between these gigantic rivals was simply which was to devour the other. The debate was long and fierce ; Mr. Robert Walpole was the champion of the Bank, Mr. Aislabie, Chancellor of the Exchequer, was patron of the South Sea Company. At length, on the 2nd April, the South Sea Bill was read a third time, and passed by a majority of 172 to 55. Then it

was carried up to the Lords. The debate was equally animated, but, as usual, less garrulous ; it was ended in a single day, and the South Sea carried the day by a majority of 83 to 17. The King closed the session on the 11th June, and congratulated Parliament on the good foundation they had prepared for the payment of the national debts without violation of the public faith

69. The price of the South Sea Stock, on the 7th April, when the Bill passed, was 310, next day it fell to 290. On the 12th, the Directors opened their first subscription of £1,000,000 at £300 for every £100, having first propagated the most enormous falsehoods of alleged trading advantages they had secured in the South Seas. Twice the sum was subscribed, and in a few days the subscriptions were sold at double the price of the first payment. Then began the wild delirium—by successive stages the stock stood at £500 on the 23rd May ; on the 2nd June at £890; next day it fell to £640. After some fluctuations, the Company opened their books for a third subscription at £1,000; £4,000,000 were taken at that price, and, before the end of June, the stock was at £2,000. The price of Bank Stock, at the same time, was £260. The great outbreak of the bubble mania had begun before the prorogation of Parliament, and on that day the King had published a proclamation to put them down, but with little effect. By the middle of July the projects before the public required a capital of £300,000,000. One was " For carrying on an undertaking of great advantage, but nobody to know what it is." The witty rogue promised, on a deposit of £2 2*s*., that each subscriber should receive an income of 100 per cent. In a single morning he received £2,000, and, of course, immediately decamped. Permissions to subscribe to a future scheme were selling at sixty guineas

70. Then came the fearful collapse ; on the 2nd September the stock was at £700. The Directors made many vain efforts to retrieve its credit. On the 13th it was at £400. Then the Directors were compelled to make humble suit to their vanquished rivals. At the intercession of Walpole, the Bank of England agreed to a draft of a contract for providing means to

sustain the credit of a number of their bonds. After protracted negotiations, the terms were agreed upon between the two Companies, and brought before the proprietors of the Bank of England, and approved of by them. Before, however, it could be embodied in a legal form, affairs took a very different turn. A great many of the goldsmiths and private bankers had advanced great sums upon the South Sea Stock ; when this fell, it brought a run upon them. Many of them stopped payment, and absconded. The Sword Blade Company, who were the cashiers to the South Sea Company, stopped payment. This portended universal bankruptcy. The Bank had been assailed with every species of public resentment because it had hesitated to lend its aid in supporting the South Sea Bonds. Every one looked upon it as the sole pillar of credit, but even the credit of the Bank was now shaken. The general failure of the bankers immediately caused a great run upon it. The Bank, in these straits, devised a trick to prolong the payments. It employed a number of clerks to tell out the money which was demanded, as well as what was brought in. Payments were made in light sixpences and shillings, and large sums were paid to particular friends, who went out with their bags of money at one door, to deliver them to people placed at another, who were let in to pay the same money to tellers, who took time to count it over. These persons, were, of course, always served first. By this means time was gained, the friends of the Bank rallied round it, and made large subscriptions to support the Company ; the festival of Michaelmas, at which it was usual, at that time, to shut up the Bank, came, and, when it was opened again, the public alarm had passed off

But something was required to be done to restore public credit. The South Sea Company were permitted to sell annuities to the value of £200,000 a-year. The Bank bought them at 20 years purchase, and was allowed to add the £4,000,000 to its capital : it then stood at £8,959,995 14*s.* 8*d.*

71. Up to the year 1722, the Bank had divided the whole of its profits among the Shareholders, and had made no reserve for any contingencies. The dividend, therefore, had been extremely variable. It had fluctuated from 18¼ per cent. in 1706, to 6 per

cent. in 1722. The inconvenience of this was strongly felt, as well as having no fund to fall back upon in cases of emergency. These had hitherto been met by making calls upon the proprietors. In this year the Directors established a reserve fund, which is called the Rest

72. Several financial transactions took place between the Government and the Bank, which need not be detailed here. Upon most of the previous occasions of the renewal of the charter, there had been much public discussion as to the expediency of continuing this monopoly. The Bank, however, had always been able to relieve the continually embarrassed state of the finances, and had thus purchased its privileges. As the time was drawing near for the expiry of the monopoly in 1742, these discussions became more frequent and animated, and several attempts were made to set up banks in such a manner that they should not violate the clause in the Act of 1709. When the time for the renewal came, the Government were, as usual, in difficulties, and the Bank agreed to lend them £1,600,000, without interest. To raise this sum, they made a call upon their proprietors, which raised their capital stock to £9,800,000. In consideration of this, their exclusive privileges were continued till twelve months' notice after 1st August, 1764. Moreover, it was determined to stop up all the loopholes in the Act of 1709, and the following clause was inserted in the Act, Statute 1742, c. 13, s. 5—

"And to prevent any doubts that may arise concerning the privilege or power given by former Acts of Parliament, to the said Governor and Company of *exclusive* BANKING, and also in regard to the erecting of any other Bank or Banks by Parliament, or restraining other persons from banking during the continuance of the said privilege granted to the Governor and Company of the Bank of England, as before recited, it is hereby further enacted and declared, by the authority aforesaid, that it is the true intent and meaning of the Act that no other Bank shall be erected, established, or allowed by Parliament, and that it shall not be lawful for any body, politic or corporate whatsoever, united, or to be united, in covenants or partnership, exceeding the number of six persons, in that part of Great Britain called

England, to *borrow, owe, or take up any sum or sums of money on their bills or notes payable at demand, or at any less time than six months from the borrowing thereof*, during the continuance of such said privilege of the said Governor and Company, who are hereby declared to be and remain a corporation with the privilege of *exclusive* BANKING, as before recited"

This clause demands the most earnest attention, because it is the one which contains the sole monopoly of the Bank of England, which is, at the present time, being again brought before the attention of Parliament. It is a penal clause, and therefore, of course, to be construed strictly; and we must now examine its real force and effect

We have already shown that all banking consists in "Issuing" Rights of action, or Credit, in exchange for Money or Securities. When a banker has once issued this Right of action to his customer, the customer might either transfer this Right of action, or Credit, to any one else he pleased, by giving him a Cash Note, or Cheque on his banker, or the banker, if the customer preferred it, would give him a Promissory Note, payable to bearer on demand; and it is perfectly legal at Common Law for any person whatever to issue Promissory Notes, payable to bearer on demand

Now, the sole monopoly granted to the Bank of England by this clause is, that during the continuance of its Charter no partnership exceeding six persons *in England*, should issue Notes payable on demand, or at any less time than six months after issue. All other kinds of banks and methods of banking are left absolutely free and untouched

There is not a syllable in this clause to prevent Joint Stock Banks being formed, which should not issue Notes, or Notes payable at six months after issue

And there is absolutely nothing whatever to prevent any bank in any other part of the world, in Scotland, Ireland, France, Russia, or America, from opening a branch in London, and doing all sorts of banking business, except only issuing Notes payable at less than six months after issue

73. In September, 1745, the rebellion in Scotland seemed to be assuming formidable proportions. The Chevalier captured

Edinburgh, and this news produced a run upon the Bank, partly caused, it is said, by the friends of the Prince, both to get money to assist him, as well as to embarrass the Government. Bank Notes fell to a discount of 10 per cent. A meeting of merchants immediately took place, and 1,600 of the most eminent came to a resolution, on the 26th, pledging themselves to support the credit of the Bank Notes. It also said that the Directors adopted the same expedient on this occasion, which had been so successful in 1720, of paying in sixpences

74. In 1746 the Ministry were again in difficulties, from the political disturbances in the preceding year, and they were obliged to apply for assistance to the Bank. The proprietors authorised the Directors to cancel £986,000 of Exchequer Bills, upon receiving an annuity of 4 per cent., and to create new stock for that purpose. This increased the paid-up Capital to £10,780,000, which was not further augmented till 1782. In 1750 the interest upon £8,486,000 of the debt due to them from Government was reduced to 3 per cent.

75. In 1759, the Bank began to issue Notes for £15 and £10

76. It is a favourite doctrine with some persons, that it is impossible to have an undue extension of credit with a purely metallic basis, and that an improper issue of bank notes is the sole cause of too great an expansion of credit. Just as if the currency being made of metal could prevent people from giving their "promise to pay," and buying up goods on speculation. The year 1763 is remarkable as among the first of those great eras of commercial distress and prostration, caused by too great an expansion of credit. And these disasters took place where there was no currency at all but what represented bullion—Hamburg and Amsterdam. The progress of the Seven Years' War had probably encouraged great speculation among the continental merchants, which involved those connected with them in ruin when peace came. Two brothers at Amsterdam, named Neufville, were among the principal merchants and speculators who had connections all over the continent. At

length their embarrassments became so great that the bankers at Amsterdam could no longer support them, and they failed for upwards of 330,000 guineas, on the 29th July, 1763. Before the news of their actual stoppage reached Hamburg, the bankers of that town were thrown into the greatest consternation by hearing that it was intended at Amsterdam to allow the Neufvilles to fail. On the 4th August, 1763, the bankers at Hamburg met to consider how the tottering state of credit in that town was to be supported, when they say—

"We received a fatal express with the terrible news that you, the gentlemen of Amsterdam, would leave the Neufvilles to sink, by which we were all thunderstruck; never dreaming that so many men in their senses in your city could take such a step—a step which will infallibly plunge all Europe into an abyss of distress, if not remedied by you whilst it is time. We, therefore, send this circular and general letter to you by an express, to exhort and conjure you, as soon as you receive this, to undertake still to support the Neufvilles, by furnishing what money they want, and giving them two or three persons of unquestionable probity and skill for curators, that their affairs and their engagements may be concluded and terminated, without causing a general ruin, which will otherwise infallibly happen. If you do not, gentlemen, we hereby declare to you, that our resolution is taken, that is to say, that although were present a very respectable body of rich and respectable men, we have unanimously resolved to suspend our own payments, as long as we shall judge it proper and necessary, and that we shall not acquit them, or the counter-protests that shall come from you, or any whatever

"This is the resolution we have unanimously taken, and from which we will not depart, happen what will. The fate of the general commerce of all Europe is at present absolutely in your hands; determine, gentlemen, whether you should crush it totally, or support it"

The letter, however, came too late to exercise any influence, as the Neufvilles had been allowed to fail six days before. A general failure took place, eighteen houses immediately stopped payment. A much greater number in Hamburg immediately followed, and no business was for some time transacted but for ready money. The failures were equally general in many others

of the chief cities of Germany. A conspicuous example that credit may be just as easily abused under a metallic currency, as under a paper one. This crisis extended to England, and Smith says that the Bank made advances to merchants to the amount of a million

77. In 1764 the Bank's Charter expired. The terms of renewal were an absolute gift of £110,000 to the nation, and a loan of £1,000,000 on Exchequer bills for two years at 3 per cent. interest. The charter was then renewed on these terms till twelve months' notice after 1st August, 1786, and the repayment of the Government debt

78. In 1772 the first of those great commercial panics took place, in which the Bank was called upon to take a prominent part in supporting commercial credit. The preceding two years had been distinguished by the most extravagant overtrading. On the 10th June, 1772, Heale and Co., Bankers, in Threadneedle Street, stopped payment, involving several others. The Bank of England and some merchants came forward to support credit, which had the appearance for a few days of being successful; but in ten days' time a general crash ensued. The whole city was in consternation: there had not been such a prospect of general bankruptcy since the South Sea scheme. By the measures taken the panic was at length allayed, but the bankruptcies of that year amounted to the unprecedented number of 525. These speculations had been general throughout Europe, and in 1773 the crash extended to Holland. About the beginning of the year, the failures of that country were of so alarming a nature, and so extensive in their influence as to threaten a mortal blow to all public and private credit throughout Europe. They were caused by great speculative dealings in trade, as well as in the public funds of different countries, and the losses were estimated at £10,000,000

79. During the course of this century, the coinage was progressively deteriorating, and a Committee of the House of Commons reported, that on a considerable amount of the gold coinage, the deficiency was about 9 per cent.; in the year 1774,

the great re-coinage was ordered. The market price of gold well illustrates this deterioration—

BEFORE THE RE-COINAGE

		Market Price of Gold
July,	1718	£3 19 10
January,	1721	3 18 6
,,	1730	3 18 11
,,	1754	3 18 5
,,	1761	3 18 10
,,	1772	4 1 0

AFTER THE RE-COINAGE

January,	1782	£3 17 6
,,	1790	3 17 6

And it continued at this rate till September, 1797

80. The next renewal of the charter was in 1781, when, upon the Bank's advancing £2,000,000 at 3 per cent. interest for three years, the charter was renewed till twelve months' notice after the 1st August, 1812, and the payment of the public debt. In the next year a call of £8 per cent. on the capital produced £862,000, and the paid-up capital of the Bank was £11,642,400. The renewal of the charter five years before its expiry excited very keen discussion. The Ministry, however, eulogised the eminent public services the Bank had rendered for ninety years, and warmly deprecated any attempt to interfere with its privileges. They carried their plan by a majority of 109 to 30. Considering that the Three per Cents. were then at 58, the offer of the Bank was a very great accommodation to the State

81. The termination of the Seven Years' War took place in 1763, when it is usually said that this nation finally took that rank in the scale of nations which she at present holds. After long and doubtful contests, in which victory often trembled in the balance, the star of England triumphed over that of France, both in the East and in the West. Coincidently with this, the industrial energies and mechanical genius of the nation burst forth with unparalleled splendour. Previously to this time, Great Britain was probably more backward in great public

works than any State in Europe. She could show nothing that could be compared with the great French and Spanish engineering works. The first canal in France preceded the first canal in England by 150 years. The great canal of Languedoc was completed upwards of half a century before the smallest canal was begun in England. And Spain had preceded France by three quarters of a century. She owes the canal of the Ebro to the genius of Charles V. In Italy, Gerbert, the morning star of modern literature and science, was famous for his hydraulic works in 999. And those of Lombardy, executed in the eleventh century, are still the admiration of modern engineers. The first Act for a work of this nature, however small, in England, was passed in 1755. Facility, quickness, and cheapness of transit are the very foundations of commercial greatness. Brindley, the father of the modern commercial greatness of England, completed the canal from Worsley to Manchester in 1762. This was as prodigious a stride in advance of the age as the opening of the railway from Manchester to Liverpool was in its day. The success of this was triumphant. Then commenced the great era of canal making. Within 25 years the country was covered with a network of canals such as no other country in Europe, but Holland, can boast. Taking into consideration the comparative wealth of the country at the two periods, the period from 1770 to 1795 was fully as wonderful an effort in canal-making, as the period from 1830 to 1855 was in railway making. Concurrently with this prodigious extension of the facilities of transport, an equal extension of the powers of production took place. It would almost seem like a dispensation of Providence that at this particular period such an extraordinary outburst of mechanical genius took place. It would almost seem that these three men, Brindley, Arkwright, and Watt, were specially raised up by Providence to elaborate those miraculous resources, which it is impossible to doubt, carried this country triumphantly through that terrific contest which was then just about to burst upon the world

82. It was just at this period that the original sin of the monopoly of the Bank of England began to tell with full force upon the country. Now were the seeds of future ruin, misery,

and desolation sown broadcast throughout the land. The prodigious development of all these industrial works demanded a great extension of the Currency to carry them on. What was required was to have banks of undoubted wealth and solidity to issue such a Currency. Bank of England notes had no circulation beyond London. Its monopoly prevented any other great banks being formed, either in London or the country, and it would not extend its branches into the country. Scotland at this time possessed three great and powerful Joint Stock Banks, and it was just at this period that they began successfully to extend their branches into the country. England required to have a Currency, and, as it could not have a good one, it had a bad. Multitudes of miserable shopkeepers in the country, grocers, tailors, drapers, started up like mushrooms and turned bankers, and issued their notes, inundating the country with their miserable rags. Burke said that when he came to England in 1750 there were not twelve bankers out of London; in 1793 there were nearly 400. In 1775 an Act was passed to prohibit bankers issuing notes of less than 20*s*., and two years afterwards of less than £5. It is no doubt true, that many of the most respectable banking firms of the present day also took their rise at this time, but they were, comparatively speaking, few. The great majority were such as we have described above

83. The state of the foreign exchanges, and the condition of the coinage about this period, offer many instructive examples of the truth of the principles laid down in the chapter on Exchanges: but we shall reserve them till we come to the consideration of the Bullion Report, when they will be fully discussed

84. In 1782 the unhappy war with America was fortunately terminated, and immediately a prodigious extension of the foreign commerce, which had been previously unusually restricted, took place. The enormous markets thrown open to the merchants led to the most extravagant overtrading, which was greatly fostered by the most incautious issues from the Bank, and a very alarming drain of specie from the Bank, which produced a crisis, threatening to compel them to stop payment. The

directors, however, considered that if they could only restrain their issues for a short period, the returns in specie in payment of the exports would soon set in in a more rapid manner than they went out. They determined, therefore, to make no communication to the Government, *but for the present to contract their issues* UNTIL THE EXCHANGES TURNED IN THEIR FAVOUR. The alarm felt by the Bank was greatest in the month of May, 1783. They then refused to make any advances to Government on the loan of that year, but they did not make any demand for payment of the other advances to Government, which were then between nine and ten millions. They continued this policy up to October, when at length the drain had ceased from the country, and money had begun to flow in from abroad. At length, in the autumn, when the favourable signs began to appear, they advanced freely to Government on the loan, although at that time the cash in the Bank was actually lower than at the time when they felt the greatest apprehensions. It was then reduced to £473,000

85. The doctrine then stated by Mr. Bosanquet that guided the Directors was this—That while a drain of specie is going on, their issues should be contracted as much as possible, but that as soon as the tide had given signs of ceasing, and turning the other way, it was then safe to extend their issues freely. This was the policy they acted upon, and it was entirely successful, and the credit of the Bank was saved

86. The period succeeding the American war was one of great apparent prosperity throughout Europe. People firmly believed that all wars were come to an end, and the reign of perpetual peace had begun. The fierce enthusiasm which had distracted Germany for so many years with religious wars, had abated, and the despotic sovereigns of that country, with no apparent object of terror, had become sensibly milder in their administration. The press had attained unwonted freedom. To the unobserving eye, nothing betokened any symptoms of disturbance ; and the writings of philosophers propagated the belief that the indefinite progress of human perfectibility was at hand.

Europe was at last roused from its dream of security by the terrific progress of the French Revolution

87. Mr. Tooke states, from his own personal recollection, that there had been an enormous and undue extension of commercial speculation, not only in the internal trade and banking of this country, but also throughout Europe and the United States, for some years previous to 1792. The amount of bank notes in circulation, which was under six millions in 1784, had increased to nearly eleven millions and a half in 1792. At length, in the autumn of 1792, commercial failures began both here and abroad, as well as in America. The average of bankruptcies during the first ten months had been 50, in November, they suddenly rose to 105. This unusual number created much uneasiness, but they diminished greatly in December. In January, 1793, they rose again. The French Revolution was now advancing with rapid strides; the King had been a prisoner ever since the 10th August. In November the Convention published what was tantamount to a declaration of war against every established Government in Europe. Great Britain thought it time to arm. The militia were called out, and on the 13th December Parliament met, and the King called the attention of the Houses to the increasing political ferment in the country, which had shown itself in acts of riot and insurrection. He said that the agitators were evidently acting in concert with persons abroad, and that it was impossible to see, without the most serious uneasiness, the evident intention of the French to excite disturbances in foreign countries wholly contrary to the law of nations. Under these circumstances it became necessary to augment the military and naval forces of the country. An angry correspondence between the Governments inflamed the passions of both nations, and, on the execution of the King, the British Government expelled the French Ambassador, and the Convention instantly declared war. The declaration of war, though it must evidently have been foreseen, gave a shock to credit, which was already staggering. On the 15th February, a house of considerable magnitude, deep in corn speculations, failed, and on the 19th, the Bank refused the paper of Lane, Son, and Fraser, who stopped next morning to

the amount of nearly one million, involving a great number of other respectable houses. In the meantime, the panic spread to the bankers. It began at Newcastle. The partners in the banks at Newcastle were opulent, but their private fortunes were locked up. They issued notes which allowed interest to commence at some months after date, and then they were payable on demand ; when the run came they were unable to realise, and stopped payment. The panic immediately spread throughout the country. It was computed that there were nearly 400 country Banks at that time, of these 300 were much shaken, and upwards of 100 stopped payment. The Banks of Exeter and the West of England almost alone stood their ground. They issued notes payable at 20 days' sight, with interest commencing from the date of the note, and ceasing on the day of acceptance. The best contemporary authorities are unanimous in attributing this terrible disaster to the inordinate multiplication and reckless operations of these country "bankers," which had been established in almost every town and even village in the country

88. This great pressure extended to the London bankers as well as the country ones. One of them says that the extraordinary state of credit had obliged every person connected with trade and money transactions, to gather in and husband every resource to meet all demands. That for six weeks back every man of money and resources had been straining every nerve to support himself and immediate friends, and could not give that support to others which they would have been disposed to do. All these circumstances naturally produced a demand on the Bank of England for support and discounts. But the Bank, being thoroughly alarmed, resolved to contract its issues: bankruptcies multiplied with frightful rapidity. The Government urged the Bank to come forward and support credit, but they resolutely declined

89. Sir Francis Baring greatly blames the directors for their conduct on this occasion. He says that they at first accommodated themselves to the crisis, but their nerves could not support the daily demand for guineas, and, for the purpose of

checking the demand, they curtailed their discounts to a point never before experienced ; and that if they determined to reduce their issues, it should have been gradual. Their determination, and the extent to which it was carried, came like an electric shock

90. He says that there are three different causes for a great demand for guineas—

1. For export

2. For the purpose of hoarding, from want of confidence in the Government, and in the circulating paper

3. To enable country banks to discharge their demands whilst confidence in the Government and in the bank remained entire

That every measure ought to be taken to prevent and mitigate the first cause, except prohibition and bankruptcy. We may reserve the second till we come to 1797. That the third ought to be viewed, not with indifference, but with a disposition to spend almost their last guinea. He shows, from the state of the exchanges, that it was quite impossible the guineas could have left the country, as the loss on exporting them to Amsterdam was £3 6*s.* 3*d.*, and to Hamburg £4 2*s.* 6*d.* per cent., and it was notorious that large quantities of gold and silver were coming in from France. The cause of this was the continued depreciation of the Assignats. Under these circumstances, he says that the directors acted quite wrongly, they ought to have seen that the guineas would have very soon come back to them, and that they ought, in fact, to have followed the precedent of 1783, which had been so successful

91. When the Bank adopted this perverse course, universal failure seemed imminent. Sir John Sinclair remembered the precedent of 1697, when Montague had sustained public credit by an issue of Exchequer bills, and thought that a similar plan might be followed in this crisis. The Minister desired him to propose a scheme for the purpose, which he presented on the 16th April. A Committee of the House of Commons was immediately appointed. In the meantime, a director of the Royal

Bank of Scotland came up with the most alarming news from Scotland. The public banks were wholly unable, with due regard to their own safety, to furnish the accommodation necessary to support commercial houses, and the country bankers. That, unless they received immediate assistance from Government, general failure would ensue. Numerous houses, who were perfectly solvent, must fall, unless they could obtain temporary relief. Mr. Macdowall, M.P. for Glasgow, stated that the commercial houses and manufactories there were in the greatest distress from the total destruction of credit. That this distress arose from the refusal of the Glasgow, Paisley, and Greenock banks to discount, as their notes were poured in upon them for gold

92. The Committee reported that the general embarrassment of commercial credit was so notorious as to call for an immediate remedy, without much examination. That the failures which had taken place had began with a run on those houses that issued circulating paper without sufficient capital, but had extended so as to affect many houses of great solidity, and possessed of funds ultimately much more than sufficient to answer all demands upon them, but which could not convert those funds into money in time to meet the pressure. That the sudden discredit of so large an amount of bankers' notes had produced a most inconvenient deficiency of the circulating medium. These circumstances had caused bankers to hoard to a great extent. That unless a circulating medium was provided, a general stoppage must take place. That they had requested a number of the most eminent merchants to meet and consider a plan of issuing Exchequer bills to a certain amount, under proper regulations, who had unanimously agreed in the propriety of such a course, as the best remedy that could be devised

93. The Committee recommended that Exchequer bills to the amount of £5,000,000 should be issued under the directions of a board of commissioners appointed for that purpose, in sums of £100, £50, and £20, and under proper regulations. After considerable doubts were expressed by Mr. Fox and Mr.

Grey, as to the policy of this extraordinary measure, which was unknown to the constitution and might subvert our liberties, the bill passed

94. No sooner was the Act passed than the Committee set to work. A large sum of money, £70,000, was sent down to Manchester and Glasgow on the strength of the Exchequer bills, which were not yet issued. This unexpected supply, coming so much earlier than was expected, operated like magic, and had a greater effect in restoring credit than ten times the sum could have had at a later period

95. When the whole business was concluded, a report was presented to the Treasury. It stated that the knowledge that the loans might be had operated, in many instances, to prevent them being required. The whole number of applications was 332, and the sum applied for £3,855,624, of which 238 were granted, amounting to £2,202,000 ; 45 for sums to the amount of £1,215,100 were withdrawn, and 49 rejected. The whole sum advanced was repaid; two only of the parties assisted became bankrupt, all the others were ultimately solvent, and in many instances possessed of great property. A considerable part of the sum was repaid before it was due, and all the rest with the utmost punctuality. So much scrupulous care was taken to preserve secrecy as to the names of the applicants, that they were not known to that hour except to the Commissioners and their own sureties. After all expenses were paid, the transaction left a clear profit to the Government of £4,348

96. Whatever were the prognostications of its futility and danger before it was done, its success was perfect and complete. The contemporary writers all bear witness to the extraordinary effects produced. Macpherson says that the very intimation of the intention of the Legislature to support the merchants, operated like a charm all over the country, and in a great degree superseded the necessity of the relief by an almost instantaneous restoration of confidence. Sir Francis Baring concurs in this view, and adduces the remarkable success of the measure as an

argument to show the mistaken policy of the Bank. The panic was at length happily staid. The failures, up to July, had been 932, in the remaining five months they were reduced to 372. The gold continued to flow in, and in the last six months of 1793, and during the two following years, money became as plentiful as in time of peace, and 4 per cent. interest could scarcely be got

97. All contemporary writers bear witness to the wonderful success of this expedient. After careful deliberation, the Bullion Report warmly approved of it, censured the proceedings of the Bank of England, and especially cite it as an illustration of a principle which they laid down, that an enlarged accommodation is the true remedy for that occasional failure of confidence in the country districts to which our system of paper credit is unavoidably exposed

98. Notwithstanding all this weight of testimony in favour of the happy effects of this measure, some rigid doctrinaires afterwards condemned the proceedings as a violation of the true principles of Political Economy. Even some who helped to devise it changed their opinion afterwards upon the subject. Thus, Lord Sidmouth, in 1811, observed that he was, upon consideration, inclined to doubt of its wisdom and policy. Lord Grenville also said, that from experience and reflection he was convinced the measure was founded on wrong policy ; as one of those who were concerned in the measure, he was perfectly ready to avow his error, for he was perfectly satisfied in his own mind that it was unwise and impolitic

99. It appears to us that the reply to these objections is short and simple. In the first place, if it were a violation of the true principles of Economics, it immediately resolves itself into a question of loss of capital. It is quite easy to show that all great errors in Economics are destructive of capital. They may be estimated in money. Was this measure a pecuniary loss to the country ? But what would have been the loss to the country if it had not been adopted ? Who can estimate the destruction of capital that would have ensued in the general wreck of public credit ? It might have endangered the safety of the State. But

there are other arguments which appear to us to be conclusive as to its propriety. The general loss of credit was chiefly caused by a thorough want of confidence in the *Currency* of the country. The miserable notes of the majority of bankers were utterly blown upon. The great desideratum was a sound Currency. Now, what was it that caused such an unsafe Currency to be in circulation ? It was nothing but the unjustifiable monopoly of the Bank of England. It was this monopoly, which was itself the most flagrant violation of the true principles of Economics, which caused the bad character of the Currency. Consequently, the measure of the Government in providing a Currency in which people would have confidence, was merely a correction of the error which had produced these deplorable results. An undesirable one, it may be, but yet no better one was possible under the circumstances

100. It was about this period, though we have not been able to ascertain the exact date, nor is it at all material, that London bankers discontinued the issue of their own Promissory Notes, and confined themselves exclusively to paying the Cash Notes, or Cheques, of their customers drawn upon themselves. From this period London bankers entirely ceased to issue Notes, though they were never forbidden to do so until the Bank Charter Act of 1844. The public notions about "banking," as we have seen, were so exclusively directed to issuing Notes that, when Parliament intended to confer a monopoly on the Bank of England, it considered it sufficient to forbid any Bank of more than six partners from issuing Notes ; and for a very considerable time it did have that effect. But when London bankers discovered that they could perfectly well carry on their business without issuing Notes, there was, of course, nothing to prevent a Joint Stock Bank from carrying on business by the same method. By a fortunate accident, the opportunity which this method afforded of circumventing the monopoly of the Bank, was not discovered till many years afterwards. If it had been, there cannot be a doubt but that Parliament would have put it down very quickly. When it was discovered, the age of such monopolies had passed away, and the demand of the Bank to have it provided against was refused

101. Sir Francis Baring and Mr. Tooke both agree in saying that nothing could be more satisfactory than the financial condition of the country during 1794 and part of 1795. Both agree that the circumstances of the embarrassments, which led to the catastrophe of 1797, began in the latter part of the year 1795. Mr. Tooke places the commencement rather earlier than Sir F. Baring. He states that the winter of 1794-95 was one of the severest on record, and that, in the spring or summer of 1795, apprehensions began to be felt for the growing crops. The prices of all sorts of corn advanced rapidly. The spring of 1795 was very cold and backward, the summer wet and stormy, and the harvest unusually late. Under these circumstances, wheat, which was at 55*s.* in January, reached 108*s.* in August. The same scarcity was general throughout Europe and America. France was in a still worse position than England, and the Government, still further to embarrass her and afford relief to this country, seized all neutral vessels laden with corn, bound for France ; it also employed agents to buy corn in the Baltic ports, where its price had already been raised greatly, in consequence of large purchases on account of the French Government

102. Sir Francis Baring also states (p. 46), that the method in which the Government contracted the loan that year tended much to aggravate the evil. He says that, in former wars, it had been usual for the Government to contract with none but the most respectable monied men, who had the undoubted power to fulfil their engagements. On this occasion, the Minister contracted with men who did not possess those powers, and in order to make good their payments, they were obliged to have recourse to operations on foreign places, which deranged the exchanges, and had a still greater effect in raising the rate of interest in this country

These causes alone were sufficient to create a monetary pressure, but, though they would have been inconvenient, there would have been nothing to create alarm in them. They were, however, aggravated and intensified by other circumstances which we must now relate

103. The enormous abuses which might be perpetrated by

an unscrupulous Government, and the dangerous power which so potent an engine as the Bank of England would confer upon them, had been clearly foreseen by its antagonists at the time of its foundation, and had inspired them with a well grounded jealousy. We have seen that stringent precautions were taken in the first Act of 1695 to prevent the Bank making any advances to Government without the express permission of Parliament. It had been the custom, however, time out of mind, to advance for the amount of such Treasury bills of exchange, as were made payable at the Bank, to the amount of £20,000 or £30,000, when it was usual for the Treasury to send down orders to set off such advances against the accounts to which they properly belonged. If ever these advances reached £50,000, it was a subject of complaint. In the American war these limits had been much exceeded, and sometimes reached £150,000. Mr. Bosanquet was Governor of the Bank in 1793, and the legality of such proceedings excited grave doubts in his mind, and, after consulting with his brother Directors, they agreed that it was a serious question whether the penalties provided in the Act did not extend to such transactions. They, therefore, thought it would be expedient to apply to the Government, to obtain an Act of Indemnity, to relieve them from any penalties they might have incured, and to permit such transactions to a limited amount. Mr. Bosanquet, who conducted the negotiation with Mr. Pitt, expressly says that Mr. Pitt proposed to bring in a clause which should indemnify the Directors to advance *to a limited amount.* He says, that it was originally intended that the penalty should be taken off only in case the advance on Treasury bills should be restrained within a limited sum. This limited amount was intended to be fixed at £50,000 or £100,000. Mr. Bosanquet, however, then went out of office, and was unable further to attend to the negotiation. Mr. Pitt was much too keen not to see at once the enormous facilities Government would obtain if this Act were passed. Accordingly, he pressed it quickly through Parliament, but he took care to omit any clause of limitation (Statute 1793, c. 32). Never had such a formidable engine been placed in the hands of a Minister. He was now armed with an unbounded power of drawing upon the Bank, with nothing to restrain him, unless the Directors should take the audacious

step of dishonouring his bills. The Bank, henceforth, was almost entirely at his mercy, and then he plunged headlong into that reckless career of scattering English gold broadcast over Europe

104. No sooner had Mr. Pitt surreptitiously obtained this power over the Bank, than he set all bounds of moderation at defiance, and, sure of being able to command unlimited supplies at home, he proceeded to send over enormous amounts of specie to foreign powers. In 1793 the subsidy and sums paid to foreign emigrants amounted to £701,475. In 1794 the foreign subsidies were £2,641,053 ; in 1795 they amounted to £6,253,140. Thus, in three years, the sums sent abroad amounted to upwards of nine millions and a half. These, however, were not the totals of the specie sent abroad on other accounts. In 1793 it was £2,715,232 ; in 1794, £8,335,592 ; in 1795, £11,040,236. These great remittances had the inevitable effect of making the foreign exchanges adverse, and excited the greatest alarm in the Bank parlour. At the same time that this great drain of specie was going on, the Treasury bills increased to an unprecedented amount, and the demands for accommodation from the commercial world were equally pressing. Nothing could be more unpleasant than the situation of the Directors, placed between these powerful parties contending for accommodation, which it was daily becoming less in their power to give. So early as the 11th December, 1794, the Directors foresaw the ensuing pressure, and made representations to Mr. Pitt. In January, 1795, it became necessary to adopt a firmer attitude, and on the 15th they passed a resolution, that with a foreign loan of six millions, and a home one of eighteen millions about to be raised, the Chancellor of the Exchequer must be requested to make his financial arrangements for the year without requiring further assistance from them ; and, more particularly, that they could not allow the advances on Treasury bills at any one time to exceed £500,000. Mr. Pitt promised to reduce them to that amount by payments out of the first loan

105. He, however, paid little regard to these remonstrances ; and, on the 16th April, they were compelled to remind him that he had not kept his promise that the sum should be reduced.

They told him that they had come to a resolution that they would not, in future, permit the advances to exceed the stipulated sum. Mr. Pitt pretended he had forgotten the circumstance in the multiplicity of business, and promised that the sum should be immediately paid. Nevertheless, no reduction took place in the amount; another remonstrance was equally ineffectual, and, on the 30th July, the Directors informed him that they intended, after a certain day, to give orders to their cashiers to refuse payment of all bills, when the amount exceeded £500,000. Mr. Pitt was not prepared to comply with the request, and on the 6th August he applied to them for another advance of two millions and a half, but they refused to take his letter into consideration until he had made satisfactory arrangements with them for the repayment of the other advances. After some further communications, they agreed to the loan for £2,000,000

106. The Act of Mr. Pitt had, in fact, deprived the Directors of all control over the Bank. The foreign exchanges began to fall rapidly towards the end of 1794, and in May, 1795, had reached such a depression as to make it profitable to export bullion, and this circumstance, as well as the knowledge that several foreign loans were in progress, should have warned the Directors of the necessity of contracting their issues; such was the course laid down by the Directors in 1783. Instead of that, their issues were greatly extended. In the quarter from January to March, 1795, they stood higher than they had ever done before, though we must, in common fairness, acquit the Directors of the whole blame. The amount of their issues in August, 1794, was little more than ten millions; in February, 1795, it had increased to fourteen millions, but this was chiefly caused by the bills which were drawn on the Treasury on behalf of foreign Governments, which were made payable at the Bank. The Directors had then to choose between endangering their own safety, or declaring the Government bankrupt

107. All these concurrent causes which we have detailed, began to produce their full effects in the autumn of 1795. The drain commenced in September, and proceeded with alarming rapidity. On the 8th October, the Bank made a formal com-

munication to Government, that it excited such seriuos apprehensions in their minds, that they felt it an absolute necessity that the advances to the Government must be diminished. They reminded him of the warning they had given in the beginning of the year as to the danger of the foreign loans, which had been fully verified, and that numerous other payments must shortly be provided for. That the market price of gold was then £4 4*s.* per ounce. Under these circumstances, the Bank could lend no further assistance to the Government. On the 23rd of the same month, the Directors having heard rumours of a new loan, waited on Mr. Pitt, who professed that he had not, at present, the most distant idea of one. On the 18th November, the Governor informed Mr. Pitt that the drain continued with unabated severity, and that the market price of gold was £4 2*s.* per ounce, and said that rumours were in circulation that another loan was intended, notwithstanding Mr. Pitt's denial of it so lately. Mr. Pitt said that since their last interview the successes of the Austrians had been so great against the French, that he was of opinion that it would highly conduce to the common cause to aid them with another loan, not exceeding £2,000,000 ; but, he added, that if such a course would be hazardous to the Bank, every other consideration should be overlooked, and the loan abandoned

108. Parliament met on the 29th October, in the midst of great public excitement and dissatisfaction. The King was saluted with loud hootings and groanings, and volleys of stones were flung at his carriage, as he went to open the Session. The Speech said that he had observed for some time past, with the greatest anxiety, the very high price of grain, and that this anxiety was much increased by the deficiency of the harvest that year. A Committee of the House of Commons was immediately afterwards appointed to consider the high price of corn. In December, the House came to strong resolutions as to the necessity of diminishing the consumption of wheat as much as possible, and the members of both Houses signed an engagement to diminish the quantity by at least one-third, and to use influence to persuade others to do the same ; and an Act was passed offering heavy bounties for the importation of corn

109. This project of a loan going on, and being now proposed to be £3,000,000, the Court of Directors, after a very solemn deliberation, on the 3rd December, came to the unanimous resolution that, if the loan proceeded, they had the most cogent reasons to apprehend very momentous and alarming consequences from the actual effects of the last loan, and the continued drain of specie and bullion. In answer to this representation, Mr. Pitt solemnly promised them that he should lay aside all thought of it, unless the situation of the Bank should so alter as to render such a loan of no importance to them

110. The directors at last found that it was absolutely necessary to choose between making the Government a bankrupt, and taking stringent measures to restrict their accommodation to the merchants. They resolved to fix beforehand the amount of advances they could make day by day, and gave notice that, if the application on any day exceeded the sum so resolved to be advanced, a *pro ratâ* proportion of each applicant's bill should be returned without regard to the respectability of the party or the solidity of the bills.

111. As matters continued to get worse, the directors had several communications with Mr. Pitt in January and February, 1796, but the project of the foreign loan being much dwelt upon with great earnestness by Mr. Pitt, on the 11th February they came to a resolution which was communicated to him the same day—

"That it is the opinion of the Court, founded upon its experience of the effects of the late Imperial loan, that if any further loan or advance of money to the Emperor, or other foreign State, should, in the present state of affairs, take place, it will in all probability prove fatal to the Bank of England

"The Court of Directors do therefore most earnestly deprecate the adoption of any such measure, and they solemnly protest against any responsibility for the calamitous consequences that may follow thereupon"

Mr. Pitt replied, that after the repeated promises he had made that no further loan should be made without

communication with the Bank, and a consideration of their circumstances, he saw no occasion for these resolutions, and that he should regard them as having been made in a moment of needless alarm

112. We have already seen, from Mr. Pitt's conduct in the affair of the clause relating to the advance on Treasury bills, that he was not bound by any very scrupulous notions of honour. On this occasion he departed still further from the right path, for, notwithstanding all his solemn promises, so frequently and emphatically made, the Directors discovered that remittances were still continuing to be clandestinely made. In several interviews with him, the Governor of the Bank stated that he apprehended these remittances were being made, but Mr. Pitt did not offer any explanation, and it was afterwards ascertained that they were going on

113. Under the influence of all these combined drains of specie, the exchanges with Hamburg were in a state of extreme depression during the first three months of 1796. Sir F. Baring shows that during January the profit was £7 10*s.* per cent.; during February, £6 10*s.*; and during March, £8 7*s.* 6*d.* in transmitting gold to that place. At length the several drains began to diminish. An abundant supply of corn was obtained. The continued contraction of the Bank issues, and the cessation of the transmission of specie caused the exchanges to assume a favourable aspect in the beginning of April, and it continued steadily to increase till February, 1797

114. The stringent measures adopted by the Bank to contract its issues, caused much complaint amongst mercantile men, and a meeting of bankers and merchants was held at the London Tavern, on the 2nd April, who resolved, that an alarming scarcity of money existed in the City of London, which was caused chiefly, if not entirely, by an increase in the commerce of the country, and the great diminution of mercantile discounts by the Bank. They resolved that if means could be found to augment the circulating medium, without infringing the privileges of the Bank of England, so as to restore the amount to

what it was before the contraction of discounts, it was the duty of every friend to trade to give such a plan the most earnest support. The meeting appointed a committee to prepare a plan for such a purpose. Mr. Boyd drew up a long report on behalf of the Committee, which proposed that a Board of twenty-five members should be appointed by Parliament, who should be authorised to issue promissory notes, payable at six months after date, bearing interest at $1\frac{1}{4}d.$ per £100 per day, upon receiving the value in gold and silver, Bank of England notes, or in Bills of Exchange having not more than three months to run. The Committee had an interview with the Chancellor of the Exchequer on the subject, and he informed them that the directors of the Bank had proposed, as a remedy, that the floating debt should be funded, which plan he determined to try before adopting their plan. This was accordingly done, but it produced no relief

115. Mr. Pitt had never fulfilled his promise, so often repeated to the directors, that the advances on Treasury bills should be reduced to £500,000 : on the 14th June, 1796, they stood at £1,232,649. At the end of July he sent an earnest request to have £800,000 at once, and a similar sum in August. They were induced to consent to the first, but refused the second advance. Mr. Pitt said that the first advance without the second would be of no use to him, and begged them to reconsider their decision. The directors, thus pressed, were driven to assent to it, but they accompanied it with a most serious and solemn remonstrance, which they desired should be laid before the Cabinet. They said that nothing under present circumstances could induce them to comply with the demand, except the dread of a worse evil following the refusal, and they said that this advance would incapacitate them from granting any further assistance during the year. They closed their remonstrance by saying—

"They likewise consent to this measure in a firm reliance that the repeated promises so frequently made to them, that the advances on the Treasury bills should be completely done away, may be actually fulfilled at the next meeting of Parliament, and the necessary arrangements taken to prevent the same from ever

happening again, as they conceive it to be an unconstitutional mode of raising money, what they are not warranted by their charter to consent to, and an advance always extremely inconvenient to themselves"

However, in November, Mr. Pitt made a fresh demand on them for £2,750,000 on the security of the Land and Malt Taxes of 1797, which was granted on condition that the advances on Treasury bills, amounting to £1,613,345, were paid out of it

116. Mr. Pitt took the money, but never paid off the bills. The directors again sent on the 1st February, 1797, to demand payment of them, as they then amounted to £1,554,635, and would in a few days be increased by nearly £300,000 more. Mr. Pitt made many excuses for the non-payment, and promised to make an endeavour to do so, but he dropped a hint that another large sum of bills had come in from St. Domingo. Upon being pressed as to the amount, he said that it was about £700,000. The Governor expressed the greatest apprehensions, and begged him to delay the acceptance as long as he could. Mr. Pitt then hinted that he should want a large sum for Ireland, which he said would be about £200,000. The Governor assured him that the drain of cash had been continuous and severe of late, and that such a demand would be very dangerous

117. The enormous failures of the country bankers in 1793, had been followed by a permanent diminution of the issues of country banks to a prodigious extent. Mr. Henry Thornton, after instituting extensive inquiries in different parts of the country, stated, as the result, that the country bank notes were reduced by at least one-half, and that the wants of commerce had caused a very large quantity of guineas to be drawn into the country to supply their place. Meantime, as we have already observed, although the foreign exchanges had become favourable, the Bank still continued to adhere, with the utmost severity, to its policy of restriction throughout the autumn of 1796, and during the last three months they were no higher than they had been in 1782, with an amount of commerce many

times larger than in that year. Commercial payments required to be made in some medium in which the public had confidence. As the public could not get notes, they made a steady and continuous demand for guineas. The bullion in the Bank in March, 1726, was £2,972,000 ; in September, £2,532,004 ; and in December, £2,508,000, when a drain set in more severely than ever

118. At this period the political situation of the country was in the most gloomy condition. The war-like combinations of Mr. Pitt had totally failed, and all Europe was now smarting under the consequences of their suicidal policy in meddling with the French Republic. Mr. Burke had pronounced, in 1790, that France was, in a political light, expunged from the system of Europe ; that it was doubtful whether she would ever appear in it again. That *Gallos quoque in bellis floruisse audivimus* would possibly be the language of the next generation. So much for political prophecy ! That country, which had been supposed to offer so easy a prey to surrounding nations, and whose epitaph Mr. Burke had suggested, was now the most powerful State in Europe. She had quelled internal dissentions in oceans of blood, and poured forth her armies in a resistless torrent to avenge herself upon the haughty States which had presumed to meddle with her domestic condition. Great Britain, which had commenced the war with every other State in Europe as her ally, was now left alone. The Directory had subdued Spain by artifice and negotiation, and concluded a treaty with her, offensive and defensive, at St. Ildefonso, on the 19th August. The campaign of Napoleon, in 1796, in the north of Italy, is generally allowed to be equal, if not superior, in brilliancy, to any subsequent one. By a series of marvellous victories, he drove the Austrians out of Italy, and, in the beginning of 1797, Rome was only saved from conquest, by absolute submission of Tolentino ; and, within a month, Venice was annihilated, and Austria sued for peace at Leoben. This great reverse of circumstances had strengthened the party who had always been advocates for peace in England, and Mr. Pitt was compelled to make overtures for peace in October, 1796. A British envoy was sent to treat with the Directory, and he stayed

in Paris for two months ; but, as neither party was sincere, the treaty came to nothing. The fact was, that peace was the furthest thing possible from the thoughts of the Directory. After the conquest of La Vendee, they had an army of 100,000 men set free, under a general who is usually acknowledged to have been the equal of Napoleon in military talent, and who was burning to emulate his exploits in Italy. While the pretended negotiations for peace were going on, the Directory were organising an immense expedition for the invasion of Ireland. The orders to sail were transmitted to it several weeks before the British envoy was expelled from Paris, and it actually sailed two days before he left. Fortunately, this great armada was dispersed by a tempest, a few straggling vessels reached Ireland in the last week of December, but the rest were obliged to put back to France

119. This terrible menace which had been so long hanging over the country, and whose destination it was vain to conceal, inspired the utmost alarm, and there was a continual demand for guineas in Ireland. The year 1797 commenced with the most gloomy apprehensions and depression ; the country bankers discerned that the first burst of the storm would fall upon them, and determined to provide for it, by obtaining as much specie as they could from London, and, accordingly, the drain continued with increased rapidity after the beginning of the year

120. Mr. Pitt had hinted in his interview with the Governor of the Bank on the 1st February, that a loan for Ireland would probably be required, which would probably not exceed £200,000, but soon afterwards the directors were struck with dismay on hearing that the amount required was £1,500,000. On the 10th February the Directors came to a resolution that before they could entertain any proposal for the Irish loan, the Government must pay off debts to them amounting to £7,186,445, of which they handed him in the details

121. At that time the Banks at Newcastle had a more than

ordinary demand upon them for cash. In addition to the manufactories and collieries, the number of troops stationed in that part of the country had been considerably augmented. The banks had imported an extra supply of cash to meet their purposes, and were negotiating for more when an event happened which brought on the crisis. A French frigate went into one of the Welsh harbours and landed 1,200 men. At the same time an order came down from Government to take an inventory of the stock of the farmers all along the coast, and to drive it into the interior if necessary. These circumstances created a perfect panic among the farmers: on Saturday, the 18th February, being market day, the farmers, who at that time of year had the principal part of their rents in their hands, actuated by the terror of an immediate invasion, hurried into Newcastle the produce of their farms, which they sold at very low prices, and immediately rushed to the different banks to demand specie. Seeing this universal panic, the banks came to an agreement to stop payment on the Monday, if the panic did not subside, which they accordingly did

122. On the 21st February the state of the Bank became so alarming, that the directors resolved that the time had come when they must make a communication to the Government. The quantity of bullion had been rapidly diminishing, and the constant calls of the bankers from all parts of the town for cash, showed them that there must be some extraordinary reason for it. Mr. Pitt was aware that this proceeded from the general alarm of invasion, which he thought was magnified much beyond anything to warrant it. It was agreed that a frigate should be sent over to Hamburg to purchase specie. On the 24th of February, the drain became worse than ever, and inspired them with such alarm for the safety of the House that they sent a deputation to Mr. Pitt to ask him how long he considered the Bank should continue to pay cash, and when he should think it necessary to interfere. Mr. Pitt said it would be necessary to prepare a proclamation to put a stop to cash payments, and to give parliamentary security for the notes. But in that case it would be necessary to appoint a Secret Committee of the House to look into the affairs of the Bank. The deputation assured

him that the Bank would readily agree to this ; and it was resolved to call a meeting of the chief bankers and merchants of London to come to some resolution for the support of public credit in this alarming crisis

123. The news of the stoppage of the Newcastle banks spread like wildfire throughout the country, and soon reached the metropolis. The drain upon the bankers' coffers now became a run ; the first serious apprehensions that danger was imminent, were felt on the 21st of February ; but the drain then became unexampled, till on Saturday, the 25th, the cash was reduced to £1,272,000. Before this, the directors, in a state of utter bewilderment at the state of the country, had used the most violent efforts to contract their issues. In five weeks they had reduced them by nearly £2,000,000. On the 21st January they were £10,550,830 ; on the 25th February they were £8,640,250. But even this gave no true idea of the curtailment of mercantile accommodation, for the private bankers were obliged, for their own security, to follow the example of the Bank. In order to meet their payments, persons were obliged to sell their stock of all descriptions, at an enormous sacrifice. The Three Per Cents. fell to 51, and other stock in proportion

124. On Saturday, the 25th, the Court felt that the fatal hour was at last come, when they must for the first time since its institution, come to a total suspension of payments. A meeting of the Cabinet was held on Sunday, at Whitehall, and an Order in Council was issued, requiring the directors of the Bank of England, to suspend all payments in cash until the sense of Parliament could be taken on the subject

125. The King, the next day, sent a message to Parliament, to inform them of the step that had been taken, and recommended the subject to their most serious and immediate attention. Mr. Pitt moved that the message should be taken into consideration the next day, and he should propose that a Select Committee be appointed to investigate the state of the Bank's affairs, which he believed were in the most solid condition

126. The directors of the Bank had the order in Council printed and widely circulated, and issued a notice of their own, to say that the general concerns of the Bank were in the most affluent and prosperous condition, and such as to preclude every doubt as to the security of the notes. At this time the cash in the Bank was reduced to £1,086,170

127. The relief produced at the instant, by the definite determination to suspend cash payments and extend their issues of paper, was very great. Within one week it increased its accommodation by nearly two millions. On the same day a resolution was entered into by 4,000 of the merchants in the city, to combine to support the credit of the notes

128. Both Houses of Parliament appointed Committees to examine into the affairs of the Bank. The Committee of the House of Commons reported the outstanding obligations of the Bank, on the 25th February, were £13,770,390, and the total amount of their assets, £17,597,280, leaving a surplus of £3,126,890 over and above the debts of the Government, amounting to £11,686,800, which paid them 3 per cent.

129. Both Houses reported that it was advisable for the public interest that the suspension of payments should be continued for a limited time, and a bill for that purpose was accordingly brought in. After some debates, which threw very little light on the subject, the Act (Statute 1797, c. 45) was passed. Its chief provisions were—

1. A clause of indemnity to the Bank and all connected with it, for anything done in pursuance of the order in Council
2. The Bank was forbidden to make any payments in cash to any creditors, except in certain cases, and protected from all law proceedings
3. The Bank might issue cash in payments for the Army, Navy, or Ordnance, in pursuance of an order from the Privy Council
4. The Bank was to make no advance above £600,000 for the public service, in cash or notes, during the restriction
5. If any person deposited any sum, not less than £500, in

gold, in exchange for notes in the Bank, it might repay three-fourths of the amount

6. It might advance £100,000 in cash to the bankers of London, Westminster, and Southwark, and to the Bank of Scotland, and the Royal Bank of Scotland, £25,000 each

7. Payment of debts in Bank notes to be deemed as payments in cash, if offered and accepted as such

8. No debtor was to be held to special bail, unless the affidavit stated that payment in bank notes had not been offered

9. Bank notes would be received at par, in payment of taxes

10. Bank might issue any cash it received since 26th February, upon giving notice to the Speaker of the House of Commons, and advertising in the "London Gazette," and on the Royal Exchange

11. The Act to continue till the 24th June

130. An Act was also passed to enable the Bank to issue notes under £5 (Statute 1797, c. 28), and by c. 32 this power was extended to the country banks, but they were to continue liable to pay money on demand for them, and, on failure of doing so within three days after demand, any justice of the peace might cause the amount and costs to be levied by distress

131. All banking companies and bankers in Scotland were allowed to issue notes payable to bearer on demand for any sum under 20*s*.

132. We cannot refrain from noticing that, in the debate on this measure, Mr. Pitt expressed the identical views on the subject of the circulating medium that are the leading principles of this work. He says: "As so much has been said on the matter of a circulating medium, he thought it necessary to notice that he did not for his own part take it to be of that empirical kind which has been generally described. IT APPEARED TO HIM TO CONSIST IN ANYTHING THAT ANSWERED THE GREAT PURPOSES OF TRADE AND COMMERCE, WHETHER IN SPECIE, PAPER, OR ANY OTHER TERMS THAT MIGHT BE USED"

133. An event of such portentous magnitude as the suspension of cash payments by the Bank of England, could not fail to give rise to the most conflicting opinions as to the necessity of the measure, of the course of conduct of the directors which led to it, and as to the policy which ought to have been adopted under the drain which occurred in the last week of February, 1797. Many men of great eminence and ability changed their opinions in after times, when they came to look back upon the subsequent events. In examining this question, so as to form a just estimate of the conduct of the directors, we must remember that they were not masters of their own policy. They were distracted by two antagonistic claims, both of which they conceived it impossible to satisfy, at the same time, namely, that of the Chancellor of the Exchequer and the demands of commerce. They considered that if they advanced to the Government they must contract their issues to merchants, and, as the Minister was the more powerful and imperious party of the two, they were obliged to yield to his power

134. Several of the directors, being examined before the committees, unanimously attributed the necessity of stopping payment to the enormous amount of their advances to Government, and gave it as their decided opinion, that if the Government had repaid these advances, as they ought to have done, that this great catastrophe would have been avoided. We may take it, therefore, as admitted on all hands, that if they had been repaid by Government, they would have very greatly extended their advances to merchants. The real question then is, considering that they were under such advances to Government, would it have been prudent to have been more liberal in their accommodation to merchants ?

135. Mr. Henry Thornton was very strongly of opinion that the excessive contraction of the Bank notes had produced the most injurious effects in shaking public credit of all descriptions. That the excessive reduction of notes had caused an unusually severe demand for guineas, that the great public distrust was directed against country bank notes, and that the Bank of

England ought to have extended their issues to supply the place of the country notes

136. Mr. Walter Boyd, an eminent merchant, was very clearly of opinion that the restriction upon the issue of notes by the Bank was the chief cause of the forced sale and depreciation of the public securities, and, if the Bank had only maintained its issues at the same height as they were in December, 1795, the drain of specie from the Bank, as well as the embarrassments in the mercantile world, would have been avoided, and a great portion of the fall which public securities had experienced, would have been prevented

137. Mr. George Ellison, who was secretary to an association of a great part of the country banks, considered that the quantity of coin in the country was greater than it was in 1793, though a very considerable part was hoarded away owing to the public alarms that were abroad. He attributed the great public distrust to the remembrance of the conduct of the Bank in 1793, when it suddenly contracted its discounts, just at the period when they were most wanted

138. The Committee of the Lords called the attention of the House very strongly to these opinions, but they did not venture themselves to pronounce an opinion on their justness. The Committee of the Commons went considerably nearer towards approving of them. In the year 1810, the Governor of the Bank being examined before the Bullion Committee, stated, that after the experience of their policy of restriction, many of the directors repented of the measure, and the Bullion Committee explicitly condemned the policy of the Bank both in 1793 and 1797

139. The Directors of the Bank, acting in the midst of such unprecedented circumstances, and so tremendous an emergency, are entitled to have their conduct examined with all forbearance. But, taking all these circumstances into consideration, we cannot fail to acquiesce in the opinion expressed by so many eminent

bankers and merchants at the time, by the subsequent avowal that experience had led many of the directors to repent of the policy they then pursued, and by the decided opinion of the Bullion Committee, that the policy pursued by the Bank in this momentous crisis was erroneous, and that the severe restrictions they attempted to place upon commerce, very greatly contributed to bring on the calamity by which they were subsequently overwhelmed. Nothing, in short, could be more unhappy than their regulations of the amount of their issues. When the exchanges were violently adverse, so that it was enormously profitable to export gold, they enlarged them to an extravagant extent, and when the exchanges were extremely favourable, so that gold was sure to flow in, they restricted them with merciless severity. The issues, which were £14,000,000, when the exchanges were against the country, were reduced to £8,640,250, when they had been for several months eminently favourable. It appears, from the entire evidence in the reports, that it was this excessive restriction of notes which drained their vaults during the autumn of 1796, and that if they had been more liberal in their issues, their vaults would have been much better replenished with cash

140. This disaster was the second notable penalty which the country paid within four years for the unjustifiable monopoly of the Bank. Never was there a more unfortunate example of monopolising selfishness; it would neither establish branches of its own in the country, nor would it permit any other private company, of power and solidity, to do so, whose credit might have interposed, and aided in sustaining its own. Moreover, when a failure of confidence was felt in the country notes, it refused to issue notes of its own to supply their place. The power of issuing what plays so important a part in commerce, was absolutely forbidden to wealthy companies, and left in unbounded freedom to private persons, many of whom had no capital or property to support their issues, and whose credit vanished like a puff of smoke, in any public danger. The Bank, consequently, was left to bear the whole brunt of the crisis, solitary and unsupported, and finally succumbed

141. From the foregoing considerations, as well as the weight of authority on the subject, we can scarcely have any room to doubt that the suspension of cash payments was brought about at that particular time by the erroneous policy of the directors. We must, in candour, state that it appears open to much doubt whether any management, however skilful, could ultimately have saved them from such a disaster, during some period of the war. Several of those who concurred in the measure at the time, after their judgment had been corrected by experience, expressed their regret at having done so. Sir Robert Peel, in 1844, said it was a "fatal" measure. Notwithstanding, however, the concurrence of so many weighty authorities — and this is peculiarly a case where great authorities carry much weight—we cannot help thinking that it was fortunate that it occurred at this early period. The alarm and dangers which preceded its stoppage were comparatively slight compared with those which menaced the country after that event. The mutinies in the fleet, the rebellion in Ireland, the enormous accumulation of troops on the heights of Boulogne, flushed with victory, and led by a more fortunate, though probably not a greater soldier than Hoche, and burning with zeal for the invasion of England, were dangers of such portentous magnitude, as to render it to the last degree improbable that any paper currency, convertible into gold, could have survived them. That Montague was a greater and more successful financier than Pitt can, we think, scarcely be doubted, and the carrying through the re-coinage of the silver, in the midst of so much public distress, was a financial operation, of which the audacity, skill, and success must ever be regarded with admiration. But it must be remembered that the crisis in that reign lasted a much shorter time than the revolutionary war, and was never fraught with so much real danger to the independence of the country. At that period there was no paper credit, except the notes of the Bank of England, and William was at the head of a great European confederacy against one overgrown power, so that the circumstances of the two periods were in no way parallel, but rather, we may say, reversed. The confederacy against England at the latter period was far more menacing and formidable than the alliance against France. The

fortunes of the British Empire were apparently at their lowest ebb in 1798, and there seemed to be but one thing wanting to complete the destruction of the country—the loss of public credit. However great and invaluable are the blessings of a paper currency in time of peace, there does not appear to be any instance of its having successfully withstood the danger of an invasion by a foreign enemy. Even in Scotland, where it had been confessedly conducted upon a better system, and obtained the confidence of the country to a much greater degree, it could not have withstood the dread of invasion, if it had not been for the timely assistance of the Bank of England. And if it could not do so in that country, where the danger was remote, it is not probable that it could do so in England, where not only it was of much inferior stability, but was the very part of the empire aimed at, and first exposed to danger. The constant power of producing public embarrassment by demands for gold would have been a powerful weapon in the hands of the enemy, in which they would have found many to support them in this country from political sympathy. This measure, therefore, removed one perpetual source of terror and alarm from the Ministry. We shall show, in the next chapter, that the great depreciation of the currency which took place some years later was not by any means a necessary consequence from such a measure, but was produced by the infatuated perversity, both of the Government and of the Bank of England, who, with fatal obstinacy, persisted in a system combining almost every false principle that could be thought of. As the suspension, then, must, we think, have taken place sooner or later, it was probably advantageous for the country that it did occur so early in the struggle

142. The presumed scarcity of guineas, which led to the supposed necessity of issuing the order in Council, also rendered a more abundant supply of the circulating medium necessary, and an Act was immediately passed suspending, till the 1st May, the Act (Statute 1775, c. 51) restraining the negotiation of small promissory notes. In a few days the Bank caused to be prepared and issued £1 and £2 notes, and, to supply still further the demand for a small currency, they issued a notice that they had

imported a large number of Spanish dollars, which were to be current at 4*s.* 6*d.* However, it was discovered that the dollars were undervalued by 2*d.* each, so their current value was enhanced by 3*d.* These dollars were stamped with a small king's head. The Bank, having put the dollars into circulation at 1*d.* each above their intrinsic value, the bullion merchants were not slow in seizing the advantage, and imported an immense quantity of similar dollars, which they had stamped in a similar manner. They were all called in on the 31st October, 1797, by which time the Bank had put 2,325,099 into circulation. It at first attempted to refuse payment of the forged ones, but they were executed in so close imitation of the real ones that it was impossible to detect them, and they were obliged to pay them all

143. When the actual suspension took place, the foreign exchanges were highly favourable, so much so as to make it profitable to import gold, which began to flow in in great abundance. On the 30th May, Mr. Manning stated in the House, that vast quantities of gold had flowed into the Bank, both from the country and from abroad. The Government, however, and the directors of the Bank, concurred in thinking that it would be imprudent to resume payments in cash at the period when the restriction Act expired, and it was prolonged to one month after the meeting of the next Session of Parliament

144. Parliament met again on the 2nd November, and on the 15th the House of Commons appointed a Secret Committee to inquire whether it was expedient to continue the restriction. On the 17th they reported that on the 11th of that month, the total liabilities of the Bank were £17,578,910, and their assets £21,418,460, leaving a balance in their favour of £3,839,550 exclusive of the Government debt of £11,686,800. That the advances to Government had been reduced to £4,258,140, while the cash and bullion were five times the sum they stood at on the 25th February last, and much above what they had been at any time since September, 1795. That the exchange with Hamburg was unusually favourable, and had every appeaarnce of con-

tinuing so, unless political circumstances should affect it. That no inconvenience seemed to be felt by the bankers and traders of London, for, whereas by law they were entitled to demand three-fourths of any deposits in cash they might make, they had only actually demanded one-sixteenth. They presented a resolution of the directors, stating that the condition of the Bank's affairs was such that it could with safety resume its usual functions. The Committee, however, recommended that in consequence of the state of public affairs, it was advisable that the restriction should be continued for a further period. After a short debate, an Act was passed to continue the restriction until one month after the conclusion of a definite treaty of peace

145. The opposition in Parliament and in the country to the policy of the Ministry was very powerful, and the transactions between the Bank and the Government were severely commented upon by the leaders of that party in Parliament. They, however, did not venture to divide against the bill. In the course of the discussion, however, Sir William Pulteney spoke with very great ability against the national evils and inconveniences of the monopoly of banking by one company, and moved for leave to bring in a bill to establish another bank in case the Bank of England did not resume cash payments on the 24th June. His speeches on this and a subsequent occasion were full of admirable argument, but the interests arrayed against him were so strong that leave was refused to bring in the bill by a majority of 50 to 15

146. The exchange with Hamburg at the time of the suspension of cash payments was 35·10 ; it continued to improve throughout the whole of the year, and in December stood at 38·5, which was about £13 per cent. above par ; the issues of the Bank were about 11½ millions during the year. This extraordinary state of the exchanges continued during the whole of 1798 when they began gradually to fall, and in March, 1799, they were at 37·7, which was still £11 6*s.* above par. This was, of course, followed by a very great influx of gold, and at the end of 1798, the Bank had upwards of £7,000,000 in its vaults, and the

directors expressed their readiness to the Government to resume payments in cash. The Ministry, however, thought it inexpedient in the state of the country

147. The harvests of the two preceding years had been unusually abundant, and in January, 1799, the prices of all sorts of corn were extremely low, wheat being 49*s.* per quarter, and other kinds in proportion ; but the winter of 1798-99 was extremely rigorous and unfavourable for farming operations. The spring was equally unfavourable, and in May, wheat was at 61*s.* 8*d.* This was followed by an extremely wet summer and autumn, so that at the end of the year wheat was at 94*s.* 2*d.* In February, 1800, the subject of the scarcity was taken up in both Houses, Lord Auckland said it was estimated that the produce of last year's crop was little more than half an average. Under the influence of this unparalleled deficiency, the price of wheat rose in June, to 134*s.* 5*d.*, and remained to the end of the year at 133*s.*, after having fallen for a short period to 96*s.* 2*d.*, in consequence of large importation introduced by the temptation of heavy bounties

148. Under the influence of the enormous importation of wheat, the exchange with Hamburg continued to decline all through the summer of 1799, till in the last week of August, it had fallen to par. It continued steadily to decline after that until, in December, 1800, it reached 30. In the meantime, the price of foreign gold in coin, which had been at £3 17*s.* 6*d.* in May, 1797, rose to £4 in December, and continued at that price till September, 1799. In June, 1800, it rose to £4 5*s.*, and in December to £4 6*s.*

149. The arguments and ability of Sir William Pulteney in advocating the foundation of another bank, produced great effect, and during 1799 it excited great public interest. Meetings were held for the purpose of promoting it, and numerous pamphlets were published on the subject. The Bank Directors took alarm, and as the Minister was in want of a supply, they took advantage of his necessities to obtain a prolongation of their monopoly. The charter had still twelve years to run, but upon advancing

£3,000,000, without interest for six years, Mr. Pitt agreed to renew it for twenty-one years from 1812. Very soon after the opening of the Session in 1800, a bill for this purpose was brought forward and passed

150. We now see the results of two conflicting theories. For a considerable period there have been two opposite doctrines as to the true policy of the Bank during a great commercial crisis. The one is that the Bank should rigorously restrict its issues, and think of itself alone, and stand unmoved amid the universal ruin of the commercial world. The second is that due care should be taken to continue a restrictive policy while the exchange is adverse, but that, when the exchange becomes favourable, the Bank should enlarge its accommodation to support houses which are really solvent, but which may be brought down in the general discredit. Each of these theories has been tried, but the supporters of the first, or *Restrictive* theory, have quite overlooked one fact. Every banker of experience would tell them that *an excessive restriction of credit causes a run for gold.* Thus Sir William Forbes, speaking of the crisis of 1793, says—"These proceedings, which obviously foreboded a risk of hostilities, were the signal for a check on mercantile credit all over the kingdom ; *and that check led by consequence to a demand on bankers for the money deposited with them, in order to supply the wants of mercantile men.*" The restrictive theory was likewise explicitly condemned by Sir Francis Baring, Mr. Thornton, the Bullion Committee, and all the most eminent authorities of the times, as we shall abundantly show ; and they expressly condemned an absolute limitation of the Bank's issues, because, in certain states of credit it would cause certain ruin, and a run for gold. They expressly recommended the *Expansive* theory, and we see the results of the two

In 1783, during a great commercial crisis, the Bank restricted its issues until the exchange became favourable, and then it freely expanded them, and passed safely through the crisis

In 1797, the Directors having for some years previously prodigiously *extended* their issues, while the exchanges were adverse, and, being at last sensible of their imprudence, and

having contracted them so that for a considerable period the exchanges had become favourable, continued their policy of merciless restriction long after gold was flowing into the country, AND THE RESULT WAS THE STOPPAGE OF THE BANK

END OF VOLUME I

A. P. BLUNDELL & Co., PRINTERS, 26, GARLICK HILL, CANNON STREET, E.C.

WORKS BY THE SAME AUTHOR

I.—A

DICTIONARY OF POLITICAL ECONOMY

Biographical, Bibliographical, Historical and Practical

Vol. I., Second Edition, *preparing*

Vol. II., Completing the Work, *in progress*

"It is a great service to render to a Science to fix well its Nomenclature, and to define exactly and clearly its Fundamental Ideas. Such is the task to which Mr. Macleod brings a patience beyond proof, and the learning of a Benedictine.—*From M. Michel Chevalier's Report on M. Macleod's Works to the Institute of France*

"The name of Mr. Henry Dunning Macleod was ten years ago unknown in France, and on the rest of the Continent. . . . At present (1863), Mr. Macleod holds, at the head of the Economic Schools, in the judgment of all the learned in Europe, one of the first places, if not perhaps the first

"What works have won for this English writer so rapid and splendid a reputation in a career incumbered with so many pretenders?

"The *Dictionary* strikes the mind by its proportions. A single person is executing by himself, with a remarkable superiority, a work which in France required the assistance of 20 (38) distinguished writers, directed by an able Editor . . . .

"Mr. Macleod seems to us to deserve to be enrolled among the fathers of Political Economy especially, because he has enriched it with true discoveries on the *Present Value of Future Quantities*, of which he has demonstrated the perfect similarity with **Negative** Quantities, a domain so fertile in Mathematics. Beside him, some writers without knowing his works, had risen against the Theories of J. B. Say, in establishing the productiveness of Credit. But none had attached the scientific precision to this conception of the Present Value of *Future Quantities* or of *Deferred Payments*, which alone gives it all its importance.—*L'Economiste Français*

II

SECOND EDITION

THE PRINCIPLES OF ECONOMIC PHILOSOPHY

Vol. I., Price 15*s*.

Vol. II., Part I., Completing Pure Economics, Price, 12*s*.

Vol. II., Part II., Mixed Economics, *preparing*

Paris, *Feb.* 22, 1878

My Dear Mr. Macleod,

I have received by the post your Second Volume of the *Principles of Economical Philosophy*. I immediately set myself to read it with the attention I give to your works, and with the lively interest which resulted from the profound impression which the first had made on me. I congratulate you sincerely on this excellent work. Of all the works on Political Economy published within fifty years, none surpasses this in importance. You have advanced the Science more than anyone, by the severe and judicious analysis to which you have subjected all the fundamental conceptions and definitions. You have removed a considerable number of errors, even blunders, committed by the Physiocrates, Adam Smith, J. B. Say, Mill, McCulloch, &c., &c.; you have thus freed the field of the Science from a great number of thickets which encumbered it; you have simplified the Science, and at the same time enlarged it. It was a work of the greatest difficulty

As a proof of the conviction which I have on the subject of the extent of the services which you have rendered Political Economy, I add that it is this work which henceforth shall serve as the guide in my teaching at the Collége de France for the Philosophy of the Science. No other Work can be compared to yours for the correction of philosophic errors

Yours truly,

Michel Chevalier

27, Avenue de l'Imperatrice

III

IN TWO VOLUMES, Crown 8vo.

Vol. I., Price 7*s.* 6*d.*

Vol. II., *Nearly ready*

THE ELEMENTS OF ECONOMICS

"We have on more than one occasion expressed our high sense of the value of the several works of which Mr. H. Dunning Macleod has devoted to the exposition of that Science of Economics, of which he is undoubtedly a master

"It is well calculated for use in the higher forms of Schools, and at the Universities. It is full of life and even of picturesqueness . . . . Time after time, indeed, the learned author cites definitions from the Digest to enforce his views on the Science of Economics. We do not know of any other text-books on this Science which so vividly illustrate the value of Roman Law as an authentic source of interpretation for Economical terms." —*Law Magazine and Review*

"The very model of a student's text-book."—*Westminster Review*

IV

SIXTH EDITION

ONE VOLUME, Crown 8vo., Price 5*s.*

THE ELEMENTS OF BANKING

"A volume remarkable for the extreme simplicity of its language, the singular clearness of illustrations, and its thoroughness of treatment."—*Standard*

"The volume has the merit—too rare in the present day—of giving a great deal of thought and information in a very small compass."—*Bullionist*

"Mr. Macleod's admirable handbook."—*Edinburgh Courant*

V

SMALL CROWN, 8VO., PRICE 2*s.* 6*d.*

SECOND EDITION

ECONOMICS FOR BEGINNERS

"We have much pleasure in recommending so excellent an introduction to the study of Political Economy in its latest theoretical phases."—*Bullionist.*

"Although it professess to be no more than an Elementary Handbook the work will be found sufficient to give a clear insight into the Laws, and Principles which govern Commerce all the world over."—*Scotsman*

VI

ONE VOLUME, 8VO., PRICE 5*s.*

LECTURES ON CREDIT AND BANKING

DELIVERED AT THE REQUEST OF THE COUNCIL OF THE INSTITUTE OF BANKERS IN SCOTLAND

". . . . It is, therefore, with ready sympathy that we praise the new book of Mr. Macleod's, which, small-sized though it be, is one of great value and importance, and a laurel-wreath of literary and scientific reputation which any writer might be proud to have woven for himself. The very smallness of the volume constitutes a part of its value; for, small though it be, it is so admirably clear in its terseness, and concise and well-ordered in its treatment, that the whole principles of Banking and Credit are here placed almost by a glance under the eye of the reader; while, as already said, the principles are, in our opinion, so thoroughly just, and so well and firmly founded, that nothing better can be desired. In fine, this little volume is an intellectual treat, as well as a masterpiece in the exposition of the Principles of Banking and Credit, in the numerous forms which Credit assumes in the highly-developed commercial system of the present day. After the dreary vacuities, elaborate littleness, and often most mischievous misconceptions and fallacies of the so-called "Political Economists" of modern times, this little but weighty book is, we repeat, an intellectual treat, and redolent of the fresh air of masterly common sense."—*Money Market Review*